2005

State of the Cities

Assessing the health of Washington's cities and towns

Full Report

AWC
ASSOCIATION OF WASHINGTON CITIES





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The Association of Washington Cities (AWC) is a non-profit, membership organization that exists to create and maintain livable cities and towns throughout the state. AWC serves its members through advocacy, education and training, technical assistance, risk management and insurance services.

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Acknowledgement

Cities should be partners in government… Municipal revenues have not kept pace… Efficient cities make the state's economy strong…

These statements come from a 1958 Association of Washington Cities (AWC) publication, the last time AWC undertook an extensive analysis of the fiscal needs and service challenges to cities. However, they still apply to cities today.

The 2005 State of the Cities report shows that while cities and towns are working creatively to keep pace with growing needs, many communities are falling behind on basic infrastructure, transportation improvements and the ability to provide economic opportunities for a growing population.

This document is offered as a starting point for discussions with the state and other partners in providing services to Washington's citizens on meeting the challenges of the future and helping grow a healthy economy and quality of life for all of Washington State.

A special thank you is extended to the AWC Board of Directors, the cities and towns that participated in the survey, and the numerous AWC staff who worked on the research and production of the report.

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Leadership and staff of Washington's 281 cities and towns

2004-2005 AWC Board of Directors

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CHAPTER 1

Methodology

Methodology

Cities around the country create livable and workable communities, providing important services and bringing more people into those communities, yet Washington cities have a limited set of resources available to them to provide those services. As the economy has weakened in recent years, particularly for Washington communities, this presents a potentially dire situation for the entire State of Washington, in communities of all shapes and sizes.

Stories told by city officials have alluded to this situation over the past five years. However, a comprehensive analysis of the state of Washington cities has not been conducted since 1958. A study of the fiscal well-being of Washington cities seems more important now than ever, given the economic downturn, the growing incidence of tax-limiting initiatives and what appears to be a deterioration in critical community services.

In response, the Association of Washington Cities (AWC) decided to conduct a study that would answer one overriding question, *what implications do Washington cities and towns' recent fiscal trends have for statewide public policy?*

Specifically, the Association designed the research to identify:

- What city officials identify as essential, citizen-demanded and economic development services
- If cities are better or worse off than they were five to ten years ago
- If revenues are keeping pace with service demands and other expenditures and if service levels can be maintained without raising taxes/fees
- Major causes of budget challenges and how cities have responded to those challenges
- If the challenges and successes in providing city services as well as the responses to those challenges are different for cities, based on key economic characteristics
- Guiding principles for local and state policies that could help solve any identified problems

Data was collected from a variety of sources, such as the Local Government Finance Reporting System, as well as results from an AWC survey designed to meet the above research objectives.

The primary survey instrument was distributed to all Washington cities, asking cities' chief administrative officials to complete the first part of the survey and finance directors to complete the second part. Approximately seven out of ten cities responded to at least one section of the survey.

Survey responses and relevant data were analyzed both on a statewide basis and by groupings of cities based on their size and economic conditions.

"Every city, small or large, has its own distinct personality and set of challenges and opportunities."

Jack Collins, Northwest Small Cities Services

Cities and towns are diverse

The adequacy of funding for local services varies widely amongst cities and towns, depending on the business activity in their communities and other economic conditions. It is important to take this diversity into account when examining the fiscal condition of Washington cities.

In the past, it has been common to look at the diversity of cities in terms of their geography or size, assuming that whether a city is big or small or located in the east or west of the state has a major impact on their economic conditions. These approaches, however, are not adequate on their own; cities of all sizes on both sides of the Cascade Mountains may have access to higher education, be home to a major industry or have very few resources of their own.

For this study, cities have been grouped into clusters[1] with other cities of similar size and economic conditions. First, all of Washington's 281 cities and towns were divided into two groups of cities and towns – those located in U.S. Census-defined metro areas and non-metro areas (see map below)[2], as there is a significant difference between the economic conditions of communities in these two groups. Metropolitan areas are essentially those counties that have a large urban core and outlying areas whose economic condition is related to their proximity to that urban core, while non-metropolitan areas have a more rural character, with some medium-sized cities as regional centers.

A statistical test known as a hierarchical cluster analysis was then performed on each group, using the following variables:

- Population size[3]
- Median household income[4]
- Assessed property value, per capita[5]
- Retail sales tax revenue, per capita[6]
- Population growth, 1990 – 2000[7]

Together, these variables approximate the fiscal base for each group of cities and towns. Though these are not perfect matches[8], they offer a tool to view basic differences in resources and needs amongst Washington cities and towns. A brief review of both groups shows that there is both a wide variation in fiscal capacity over all of the cities and towns as well as between the two groups (see page 12).

Counties with a densely populated city within county boundaries

VERSUS

Counties with more widely dispersed populations

Some of the results were common to cities statewide. Critical differences were better understood by looking at cities within these basic groupings.

Finally, through a follow-up survey[9] distributed at AWC Regional Meetings, critical issues identified through the analysis described above were checked with various city officials, mostly councilmembers, to confirm that the city managers' and finance directors' information reflects the experiences and views of other city leaders.

Ultimately, this investigation uncovered the following critical issues:

- Fiscal Vise – Tax-limiting initiatives, personnel costs and other expenses and revenue limitations putting cities in financial vise.
- Crumbling Streets – City streets and other infrastructure areas are in need of significant attention and repair.
- While major pressures are felt amongst most cities, different types of cities (based at least in part by the economic conditions and fiscal base within the community) also face differing challenges.

Since cities play a critical role in the economic welfare of the state as a whole, they are important to the state as well as the citizens that live there. Policymakers need to work together to preserve all of them, each in their unique way, so we need to find a way to address these local issues in ways that will work best for each of them.

The ensuing chapters will describe in detail the critical issues facing Washington cities, which together support the following general policy guidelines and recommended actions for cities and the state:

- Allocate state funding to struggling cities and towns
- Implement a comprehensive transportation package
- Provide greater flexibility in the use of existing resources
- Develop new fiscal tools to help cities meet local needs
- Invest in economic development

Endnotes

1 Full description of cluster methodology and membership is included in Appendix A.

2 U.S. Census definition of metropolitan statistical area (MSA) - A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core. Qualification of an MSA requires the presence of a city with 50,000 or more inhabitants, or the presence of an Urbanized Area (UA) and a total population of at least 100,000 (75,000 in New England). The county or counties containing the largest city and surrounding densely settled territory are central counties of the MSA. Additional outlying counties qualify to be included in the MSA by meeting certain other criteria of metropolitan character, such as a specified minimum population density or percentage of the population that is urban.

3 Source: U.S. Census Bureau, 2000

4 Source: U.S. Census Bureau, 2000

5 Source: Washington State Department of Revenue, 2002

6 Source: Washington State Auditor's Office, Local Government Financial Reporting System, 2002

7 Source: U.S. Census Bureau, 1990 and 2000

8 Some anomalies do exist throughout these groupings, with some being stronger matches than others. These groupings should be used as a tool to analyze and understand the diversity of Washington cities only; they should not be used to rank cities or to pigeonhole them into a particular definition or group of cities.

9 Available in Appendix B with detailed respondent information.

Key Economic Indicators in Washington City & Town Groupings

Metro Area Cities

Central Cities
Size - Largest
Resident Income – Low to moderate
Commercial activity – Low to moderate business and industrial activity (per capita)
Growth – Low to moderate
Geography – Mostly all west
For example: Tacoma, Spokane

Major Commercial Centers
Size - Large
Resident Income – Low to moderate
Commercial activity – High
Growth – Low to moderate
Geography – Mostly all west
For example: Richland, Tukwila

Small Commercial Centers
Size - Small
Resident Income – Low
Commercial activity – High
Growth – Moderate
Geography – Mostly all west
For example: Yelm, Union Gap

Medium Retail Hubs
Size - Medium
Resident Income – Low
Commercial activity – Moderate retail
Growth – Moderate
Geography – East and west
For example: Pasco, Lacey

Mixed Resources
Size – Medium
Resident Income – High
Commercial activity – High
Growth – High
Geography – All west
For example: Kirkland, North Bend

High Income Residential
Size – Small to medium
Resident Income – Highest
Commercial activity – Low
Growth – Low
Geography – All west
For example: Hunts Point, Medina

Residential
Size – Small to medium
Resident Income – High
Commercial activity – Low
Growth – High
Geography – Mostly all west
For example: West Richland, Normandy Park

Urban Outskirts
Size – Small
Resident Income – Low to moderate
Commercial activity – Low
Growth – Low to moderate
Geography – East and west
For example: Eatonville, Zillah

Non-Metro Area Cities

Regional Centers
Size - Largest ones in non-metro areas
Resident Income – Low
Commercial activity – High
Growth – Low to moderate
Geography – East and west
For example: Pullman, Centralia

Rural Commercial Centers
Size - Small to medium
Resident Income – Low
Commercial activity – High
Growth – Low
Geography – Mostly east
For example: Omak, Shelton

Moderate Commercial
Size - Small
Resident Income – Low
Commercial activity – Moderate
Growth – Low
Geography – East and west
For example: Newport, Pateros

Tourism/Light Industrial Hub
Size - Small
Resident Income – Low
Commercial activity – High
Growth – Low
Geography – East and west
For example: Ocean Shores, Winthrop

Small Residential
Size – Small to medium
Resident Income – Moderate
Commercial activity – Low
Growth – Low
Geography – Mostly east
For example: Entiat, South Cle Elum

Rural Communities
Size – Small to medium
Resident Income – Low
Commercial activity – Low
Growth – Low
Geography – East and west
For example: Bridgeport, Pe Ell

Key

Indicates relationship between characteristics of cities in metro and non-metro areas

Notes groups of cities with characteristics unique to metro and non-metro areas

Definitions of Washington city and town groupings

Regional Centers

These big cities in Washington's more rural areas offer the greatest economic opportunities to their residents and neighboring communities. As they work to enhance their community's economic conditions and meet the service needs of their residents and local employers, city budgets have deteriorated. The cost of both employee benefits and liability coverage are major pressures on these cities' budgets.

Rural Commercial Centers

These cities have enough commercial activity to set them apart from most of their neighbors. Many still struggle to transition and grow their economies, and residents' income levels have grown at a very low rate over the past 15 years. They have a variety of important issues to address, from drug and alcohol abuse to the availability of affordable housing, but nearly all list the overall economic conditions of the community as top priority.

Tourism/Light Industrial Hubs

Proximity to mountains, rivers, and the ocean practically define these cities and attract tourists and various industries. Overall economic conditions, however, have deteriorated over the past five years, and all responding cities say they will have to delay capital development over the next six years to meet budget needs.

Moderate Commercial Areas

These communities have a rural, residential feel to them but with more business activity than others with those same characteristics. Economies in these areas appear to be in transition, often from industries associated with the natural environment toward small manufacturing ventures, cottage industry, recreation and tourism. The delay in capital spending to meet budget needs may make development possibilities difficult for them.

Small Residential Communities

Varying in character from quaint towns, steeped in Washington history, to small cities, these communities are shaped by the natural environment. Primary employers are retailers, but most residents travel elsewhere for their livelihood, in agriculture, timber, manufacturing and a variety of other industries.

Rural Communities

These small communities have a strong rural character, with top employers in the agriculture, forestry, fishing and hunting industries. These cities are turning to user fees as a local resources to address their difficult city budget conditions, respond to significant initiative impacts, and meet local service needs.

Urban Outskirts

Like several of the other previous groups of cities, there is a rural character to most of these communities, but their close proximity to urban centers makes them unique, particularly with their higher level of growth. Residents access jobs in the nearby urban centers, and return to their quiet homes at the end of the workday. Several of these communities had more significant

impacts from initiatives.

Residential Communities

These suburban communities are prominent neighbors of the large urban centers. The fact that they provide ample economic opportunities as well as a comfortable quality of life may be the reason these cities have grown at a very rapid rate over the past 15 years. Many of these communities were also more significantly impacted by initiatives.

High Income Residential

These King County cities are all, except one, distinctly residential, with neighborhoods that include the homes of some of the state's wealthiest residents. These residents are highly educated professionals, who typically work in positions in one of the neighboring large cities. Business activity within these communities is minimal, which limits the city's resources.

Mixed Resources

These central Puget Sound communities flourished over the 90s, with professional and scientific industries among their top employers. Initiatives, however, have put significant pressures on these cities since then, with I-747 probably having the largest impact. In response, most of these cities have reduced services.

Small Commercial Centers

Most of these cities are located far enough from the nearest major freeway and/or urban centers to retain a small town feel. For a variety of reasons, they also generate a significant amount of retail activity among their residents and visitors. This group appears to have a more positive outlook than other groups of cities – possibly due to economic development successes. Traffic congestion and downtown vitality are key local conditions.

Medium Retail Hubs

Moderate retail and manufacturing activity defines most of this group, similar to the major commercial centers. Other local conditions vary quite widely among these cities, including several whose character is influenced by nearby military bases. All delayed capital spending over the past six years to meet service needs.

Major Commercial Centers

These cities are strong retail centers; large department stores, malls, vehicle dealerships are major features in these cities. The rise in the cost of employee health benefits is a significant concern for these cities. As their budget conditions deteriorated, they have used their reserves to meet local needs.

Central Cities

These are the major population centers. They are the largest and the densest, so it makes sense that traffic congestion is most often cited among their most deteriorated local conditions. Economic and other conditions vary widely among them, though, offering each city unique challenges when trying to address this and other issues.

CHAPTER 2

Conditions in Washington Cities

Conditions in Washington Cities

When used in this report, the word "cities" refers to cities and towns. Though this report focuses on the business of running cities, it is important to remember that cities are buildings and parks and community events and rules created by the people who live and work there. Everything in this report comes back to the people who depend on them because, as William Shakespeare once said, "What is the city but the people?"

"I have an affection for a great city. I feel safe in the neighborhood of man, and enjoy the sweet security of the streets."

Henry Wadsworth Longfellow

What do city governments do?

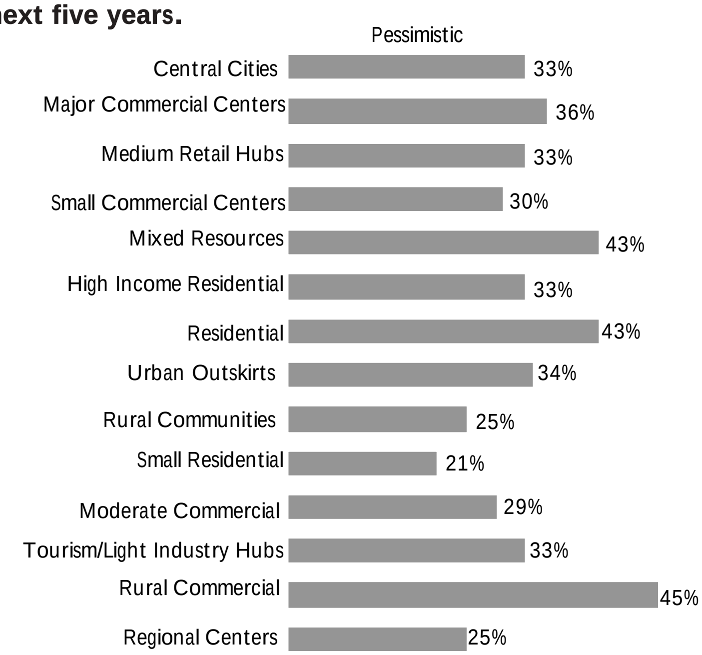
Very simply put, they provide the services that meet city needs, acquiring revenue in the least burdensome way and managing budgets in order to efficiently and effectively meet those needs. The business of running a city is not just about collecting and spending tax dollars, though. The business of a city comes back to the people - working to understand and respond to the needs of city residents. Cities do what no distant government can do: connect with the people and work with them to create the conditions they want to live in.

What services do they provide?

Most cities provide essentially the same types of services, though those services may be provided in different ways. According to most mayors/city managers, the following city services are either ones that they must provide, according to state and federal laws, or that they believe are essential to creating these safe and stable communities:

- Public safety services, including police and fire services, planning and permitting services and the administration of justice through the best access to local courts;
- Street maintenance and operations;
- Sewer and water services; and
- General administration, ensuring that all of these services are done well and meet the needs of local residents, businesses and workers.

Many cities are pessimistic about their ability to provide essential services over the next five years.

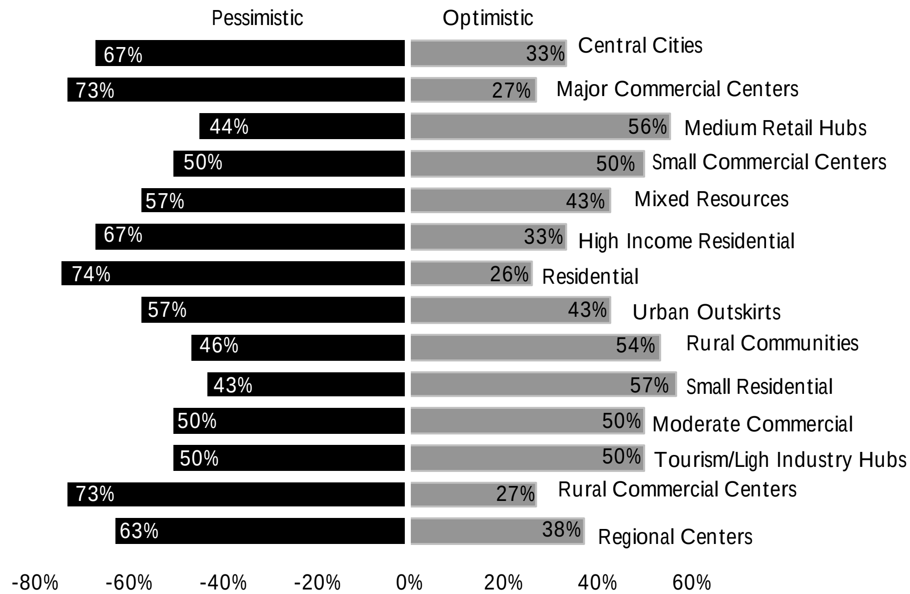


In addition, most mayors and city managers say they provide other citizen-demanded, quality of life services:

- Creation, maintenance and operation of local parks;
- Recreational, youth and senior services; and
- Libraries

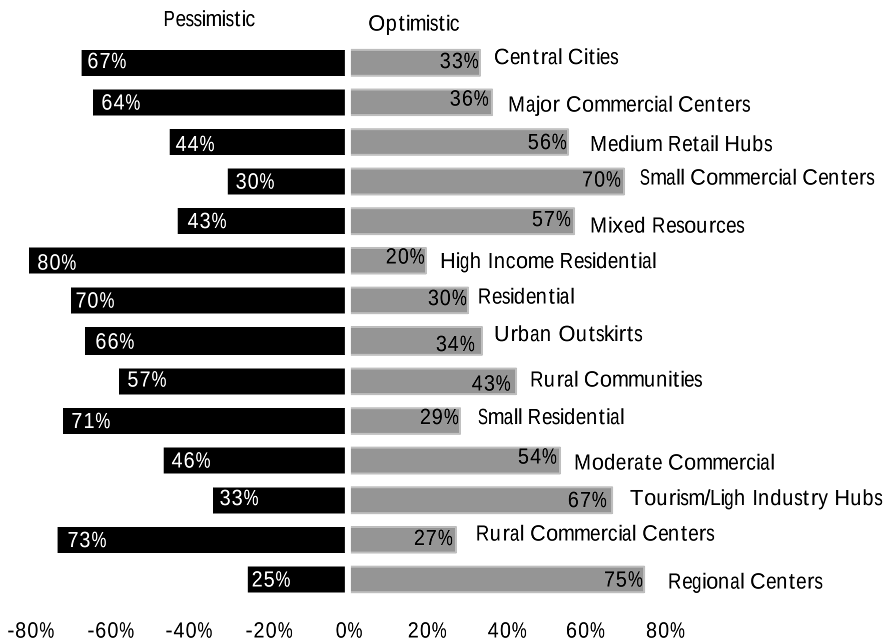
People choose to live in cities. Whether they are farmers or teachers or engineers, most people find home in a city that meets their needs. Everyone makes this decision for a variety of reasons, but somewhere in there is usually a determination that it is a place that they feel comfortable and believe they will have access to the services and other resources that are important to them.

Most cities and towns do not believe they will be able to provide citizen-demanded services over the next 5 years.



When cities are able to offer local services well, more citizens want to live and work there, and more businesses want to locate there. This benefits the entire state, growing our communities and the economy.

Cities are more pessimistic about their ability to provide economic development services. A few groups are more optimistic about their ability to provide these services than their ability to provide citizen-demanded services.



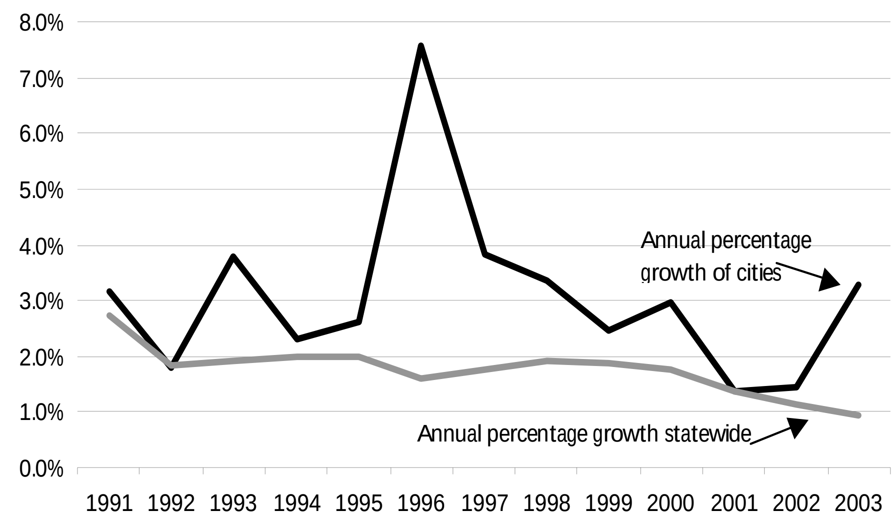
Growth – a double-edged sword

Over 3.7 million people live in Washington's 281 cities, making up 61% of Washington's population – up from 52% in 1990[1]. Between 1990 and 2000 alone, the number of people living in cities grew 39%, while the state's population as a whole grew only 21%[2].

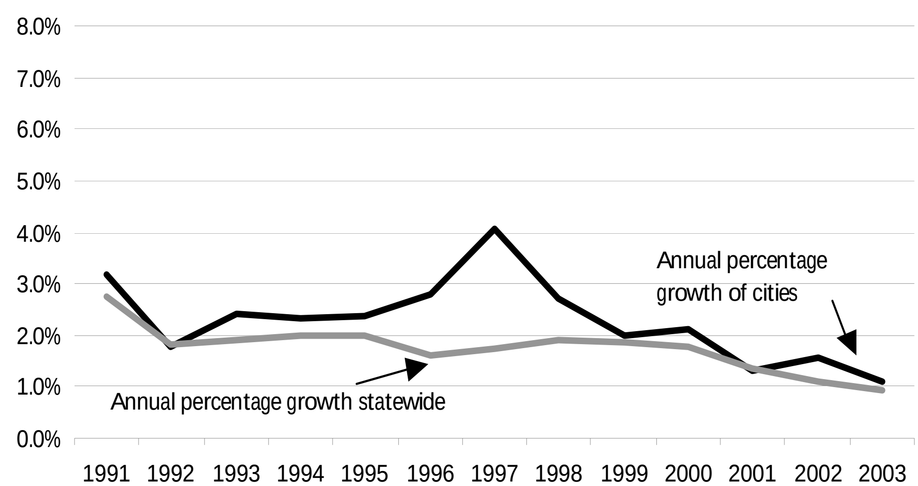
As the graphs indicate, over the past decade, cities have grown at a higher rate than the state as a whole. Citizens choose cities - whether by moving into an existing city or by creating a new one.

Source: U.S. Census Bureau (2003 Estimate from OFM)

Cities are growing much faster than the state (1991-2003)



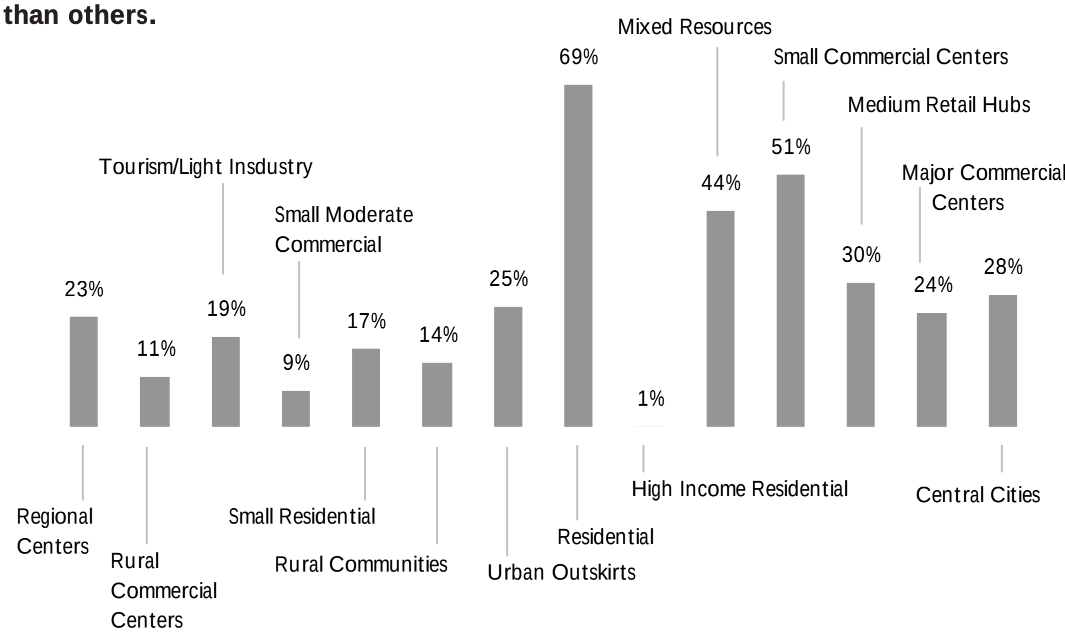
When excluding new incorporations and annexations, growth in cities still exceeds growth in the state (1991-2003)



Why did cities grow so much?

Not all cities grew equally, though; some grew significantly more than others. AWC's research showed the following growth by cluster:

All cities grew during the 90s (1991-2003). Some cities grew much more than others.



Citizens choose cities

People want to live in cities, as demonstrated by the number of new cities formed over the past decade. Fifteen cities incorporated since 1990, and are now home to nearly 400,000 people.

People want to have a government that is closer to them taking care of the issues that most impact their communities. Citizens can elect representatives that will work more closely with them to meet their unique needs and to help design a community that fits their values.

"A number of the people who are moving to Maple Valley came from longer established cities that have the full range of services. These people come with the expectation that that's what they're going to get here. It's not just that they want a parks program, they want a parks program like, for example, Seattle has."

John Starbard, Former City Administrator, Maple Valley

And it appears to pay off. Perhaps because the services cities provide are meeting citizens' needs, citizens appear to have greater trust in their city governments than other levels of government. Nearly eight out of ten city managers and mayors said residents of their cities generally trust city government. In addition, six out of ten city managers and mayors said residents of their cities sense some value for the taxes they pay, in terms of the services they receive from the city. These are both significantly higher ratings than for government in general.

Citizens trust city government more than other governments

Do citizens in your city trust government?	Government in general	Your city
Agree	1%	17%
Somewhat Agree	32%	60%
Somewhat Disagree	53%	19%
Disagree	14%	4%

Do citizens in your city sense value for their taxes?	Government in general	Your city
Agree	4%	15%
Somewhat Agree	24%	46%
Somewhat Disagree	44%	30%
Disagree	29%	9%

Growth Management Act

The Growth Management Act (GMA), enacted in 1990, directed local governments in the faster growing counties to plan for and accommodate growth and focus that growth into cities and towns and surrounding "urban growth areas."

By the mid 1990's local governments began adopting comprehensive plans and development regulations aimed at achieving this goal. We now see measurable effects from this planning effort. As an example, in King County, during 2003, 96% of the residential growth occurred within urban areas.

Income and opportunity

Annexations and incorporations do not explain all of the growth or even where the growth has occurred. Exclusive of new incorporations and annexations, the growth rate in cities over the past decade greatly exceeds that of the state. The 19% growth in new housing structures[3] during that time indicates that new people were also moving into cities.

Higher growth rates occurred largely in neighboring communities of the larger central cities – some more affluent residential communities and some that may be more affordable to live in than the large cities while still being close to job opportunities.

According to the Washington State Office of Financial Management[4], population growth tracks with the strength of the state's economy. The Brookings Institution's Center on Urban and Metropolitan Policy found that the increase in median household income shown in some cities, an indicator of economic development, had a strong relationship with cities' population growth of the decade[5]. Incomes are higher where the jobs are, and people move to the jobs.

Simultaneously, some communities that are more residential in nature or that have slightly lighter business activity on the fringe of central cities experienced high growth. Here, the opportunities residents are seeking may be affordable housing, combined with jobs that are not too far away.

No matter what caused growth in cities, it all brings new challenges. More people and jobs result in more strain on city streets, increased need for water and sewer services, and more public safety services and personnel to maintain service levels.

Kirkland is an example of a city striving to maintain quality services in the face of population growth and constrained revenue capacity. Large unincorporated areas adjacent to Kirkland very much want to annex to the city - largely to access the level of services offered there. If annexed, the city would almost double in size. However, these areas don't generate sufficient revenues to support the services currently available in the city limits.

Economic conditions in Washington cities – The 90s and beyond

The economic boom of the 1990s had a generally positive effect throughout the nation and brought many new jobs and people to Washington. Median household real income in Washington rose 9% between 1989 and 1999, well over the 4% nationwide increase. Likewise, the unemployment rate in Washington plummeted to 4.7% statewide, from a 1993 high of 7.6%.

This economic rise was strongest among the residents of Washington cities. From 1989 to 1999, the average median household real income in cities grew by 14%[6]. However, due to a changing U.S. economy, the real experience of this economic boom varied widely throughout the State of Washington.

Basics of the changing economy

Economies are becoming increasingly global. Businesses can now consider locations worldwide when deciding where to locate. Increased communication speed and an ability to move goods internationally has led to businesses locating manufacturing, R&D facilities and headquarters in different corners of the globe.

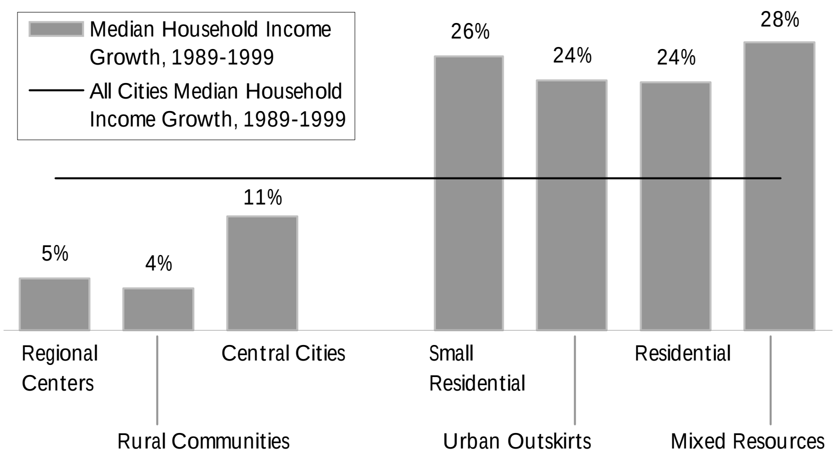
As a result, the U.S. economy is shifting more from producing food and manufacturing goods to providing services and information. While reliable data on outsourcing is not available, it appears manufacturing and other family wage jobs are in part being exported to other countries.

"I'm afraid we'll have a 'train wreck' before we get to a place where we have a solution for most small cities."

Dean Maxwell, Mayor, Anacortes

The economic boom of the 1990s was primarily fueled by an explosion in the high tech industry and other high income service sectors. Some communities benefited from this change, while others did not.

Median household income grew at different rates in different areas. Some city residents benefited far more than others.



Who benefited from the 90s boom

Residents of primarily metropolitan area communities experienced the greatest income gains during the 1990s, with the highest gains in mixed resource cities. These communities were most likely to benefit from the changing economy and the high tech boom due to the higher education levels among these city residents, their communities' close proximity to urban centers and the resulting siting of professional-level service and high tech jobs in or near those areas.

- The high income residential communities experienced median household real income growth of 17% over the 90s. These cities are home to mostly people who are at the top of their industries and well-positioned to advance in the changing economy.
- Small cities close to urban cores (small commercial centers, medium retail hubs and communities in the urban outskirts) experienced 15-24% income growth over the 90s. While these economies face challenges such as building and retaining skilled workers, they are located closer to infrastructure such as port facilities and major transportation corridors.
- Cities with a high percentage of professional sector jobs (central cities, mixed resource communities, high income residential communities) showed the widest range of income growth, from 11% to 28%. They all have fairly good access to infrastructure and an ability to attract more highly skilled and educated workers.

The economic growth in these areas is likely to have influenced some of the higher city growth rates. Unfortunately, particularly for the more residential communities, this growth produced demands for services sometimes beyond the capacity of local resources. This resulted in serious challenges for cities as the economic downturn developed at the beginning of the new millennium.

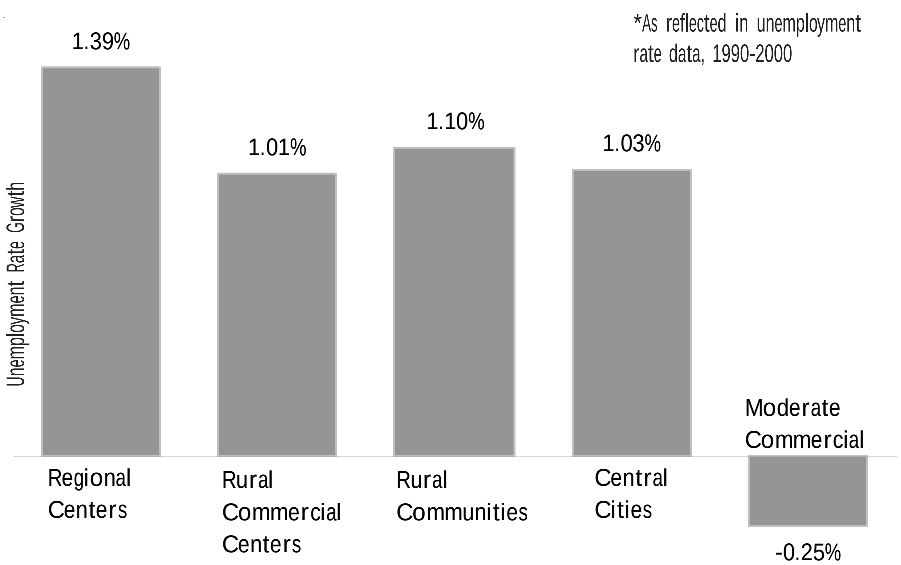
Who did not benefit from 90s boom

Some communities experienced little to no benefits from the economic boom of the 90s – primarily rural communities and regional centers. There are two very different kinds of economies in these types of communities, but it is not surprising that neither type saw many benefits from the 90s boom.

Rural Washington communities situated far from metropolitan areas characterized by timber and agricultural economies have been in decline since the 1980s. Concurrently, central cities and other regional centers tended to still have significant manufacturing industries.

On average, residents of Washington's small rural communities, regional centers, rural commercial centers and central cities experienced very little income growth during the 1990s. Not surprisingly, these same groups of cities also experienced almost a full percentage point growth in unemployment over the 90s. Their basic economic conditions follow the national trend of declining agricultural and manufacturing industries.

Rising unemployment hit many Washington cities, even during the economic boom of the 90s.



Recession & recovery - implications for the future

Just as the '90s boom was fueled by high tech and other service sector growth, the recession that hit the nation in March of 2001 was started by their decline. It most significantly impacted central cities, other regional centers and the residents of neighboring cities who worked in those communities. It also shook the overall economy, hurting cities that were already struggling due to the continuing slump in agriculture, timber and manufacturing sectors.

The economy is now beginning its recovery. While only deemed a recession, the U.S. economy appears to be in a state of jobless recovery. Some economic indicators are up, while job growth has been slow and has not yet adjusted to pre-recession levels.

The recovery has also been inconsistent in job creation and demonstrates structural changes to the national and Washington state economies. Manufacturing is still declining, along with supportive industries such as wholesale trade, transportation and utilities.[2] According to the WA State Department of Employment Security, the manufacturing sector lost over 69,000 jobs since 1990, while the economy as a whole added over 600,000 jobs. In 1990, aerospace employment made up one-third of the state's manufacturing employment. By late 2003, it dropped to less than 25%.

Agriculture, forestry, and fishing continue to decline as information services and other professional jobs increase again.

Along with these structural changes, a wage and insurance gap is growing. Jobs lost in sectors with historically high wages and health insurance benefits have not been replaced even as overall job creation increases. These jobs tend to be replaced with lower paying, uninsured service sector positions, creating a wage gap of 12% and a health benefit gap of over 14%. These gaps place higher burdens on governments for services aimed at filling these gaps.[3]

These trends do not paint a hopeful picture for a balanced statewide recovery. Meanwhile, the effects of these changes are being felt in communities of all types.

Economic hardships and other pressures impact community conditions

With this decline comes a rise in conditions that impose stress on communities, resulting in increased service demands. City officials identified the following community conditions that have been seriously deteriorating over the past five years.

- Most (75%) said the impacts of **unfunded mandates** have been getting worse over the past five years, and nearly all (93%) said these impacts are either a moderate or a major problem in their cities.
- Most (73%) also said that overall **budget conditions** have gotten worse during that same period, with nearly nine out of ten (90%) citing it as a moderate or major problem.
- **Traffic congestion, deteriorating streets** and **bridges** are cited as major issues for those cities with the most economic activity in metropolitan areas, central cities, major commercial centers, mixed resources and residential communities, as well as for tourism-based communities in non-metro areas.
- Problems with **downtown vitality, general economic conditions** and **municipal service** delivery are among the most problematic issues in communities in non-metropolitan areas. One set of cities, those with moderate commercial activity in non-metropolitan areas, identified drug and alcohol abuse among their most serious problems.

"Our downtown looks like a war zone - every other door is empty."

Art Tackett, City Administrator, Connell

"I'd like to see our community in ten years where regardless of what socioeconomic status we have now, we have an abundance of family wage jobs. We have an infrastructure that is modernized and up to date...We would have a community that has a lower crime rate. These are all things anyone would like to say about their community."

John Tarrant, Mayor, Shelton

- **Public safety** is also impacted. Communities that experience economic hardships tend to have higher crime rates, as indicated by the Washington Association of Sheriffs and Police Chiefs' (WASPC) 2001 crime data. The data shows a slight relationship between local crime rates and both population size and economic indicators among the population. Smaller cities and lower income cities are more likely to have higher crime rates.

The five-year deterioration of these community conditions is significant due both to the recession and the wave of tax-limiting initiatives that began in 1999. These and other issues that will be addressed in the ensuing chapters resulted in a general sense of pessimism about cities' ability to address critical community issues, particularly local economic conditions.

Looking ahead

Every city strives to create a productive and comfortable community for all who live, work and visit there. Every city has a unique set of resources that will help them reach that general goal. And every city has its own unique challenges that make it difficult, and sometimes impossible, to get there without help from others. The next chapter will build on the issues that have been addressed here, detailing the major forces on city budgets that help and hinder cities' efforts to build a stronger future in their communities.

Endnotes

1 Source: U.S. Census Bureau, 2000
2 Source: U.S. Census Bureau, 2000
3 Source: U.S. Census Bureau, 1990 and 2000. Housing structures include all types of housing: single family homes, apartments, condominiums, etc.
4 Source: Washington State Office of Financial Management, "2003 Population Trends for Washington State," September 2003. Retrieved from www.ofm.wa.gov/pop/poptrends/index.htm.
5 Source: Center on Urban & Metropolitan Policy, "City Growth and the 2000 Census: Which Places Grew, and Why," The Brookings Institution, May 2001.
6 Source: U.S. Census Bureau, 1990 and 2000

CHAPTER 3

Caught in a Financial Vise

Caught in a Financial Vise

Cities provide a wide array of services to the majority of Washington's citizens. Many of these services are driven by citizen demands, business community needs, and statutory and regulatory requirements.

Like most cities nationally, municipal fiscal health in Washington has declined dramatically over the last five years. Many cities are experiencing substantial difficulty in maintaining basic services and are unable to meet the current service demands of their citizens. A fiscal vise of declining revenues and growing costs requires cities to be creative in maintaining levels of service.

"We're barely holding ground, but we're not able to provide a good quality of life for our citizens and we're falling behind every day."

Ron Dire-Day, Councilmember, Longview

One size doesn't fit all

Cities have vastly differing resource capacities and service demands. While the service levels depend greatly on the character of the community and the services demanded by its citizens, business community and workforce, the challenges are remarkably similar:

- Initiatives,
- Healthcare, and
- Infrastructure.

Other negative budget drivers cited by groups of cities include:

- State aid to cities,
- Mandates,
- Costs of employees,
- Liability-related costs, and
- For some cities, sales and property taxes.

When asked what the positive drivers for the budget have been, the results are much less consistent, and they tended to focus on the ways cities have worked to sustain service levels with:

- Use of reserves;
- Increased reliance on user fees;
- Property and sales tax bases; and
- Economic development, particularly where the cities have been able to rely on growth.

Cities have also done their part to responsibly manage these daunting challenges by:

- Delaying capital investments to meet immediate needs;
- Spending down reserve funds and finding new sources of revenue; and
- Cutting programs and staff.

As indicated in later chapters of this report, cities have prioritized services and made cuts where necessary, but expenditures for roads, bridges, sewers and water systems can only be delayed for so long before the need becomes critical. These systems are essential to the economic vitality of our region, a region in which businesses look primarily to cities to provide services for their operations and to entice qualified workers to live in the community.

> "If we have to keep depending on reserves, we won't be here in five years."
>
> Barbara Harrer, Mayor, Harrah

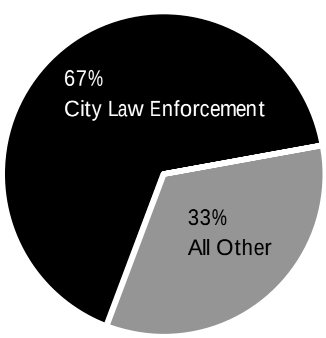
City officials are accountable to their voters and should be encouraged to use innovative strategies to address their budgetary needs. Cities should be given broad discretion to utilize flexible revenue sources to respond to local circumstances. Some cities will be able to grow out of their fiscal vise. However, many cities reported that they have used up available options and are looking to the state to work with them to provide more funding options that their residents can support, as well as to free up existing resources to be used for community priorities.

Some groups of cities report that they have tapped all available options and that citizens are unlikely to accept more pressure on their pocketbooks. These cities are looking to the state to help assure an adequate level of services to their residents in the form of state funding.

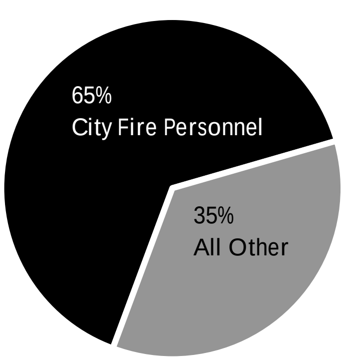
According to the survey data, the vast majority of cites are worse off than five years go and expect to be worse off next year. Structural changes to the economic base, revenue distributions, and major cost drivers have made it hard for cities to keep up. While the state is forecasting an economic recovery, cities are more pessimistic about their fiscal futures.

We believe this is because of structural changes in the financing of city services due to growth, tax limiting initiatives, and cost increases outside of local control. The loss of sales tax equalization, property tax limitations, the economic downturn, and rising personnel costs including health care, have contributed to the deteriorating fiscal condition of cities. The inability of the current tax structure to accommodate the different needs and economies of cities also damaged the fiscal health of cities.

Of all local law enforcement employees, 67% work for cities



Of all local fire employees, 65% work for cities



Background

How cities are funded

To understand the challenges facing cities, one must first understand the variety of services they provide and how they are financed. Cities operate as several distinct entities that fall into three general categories: the operating budget (made up of general and special funds), enterprise funds (utilities) and capital and debt funds.

The majority of urban services are provided through a city's operating budget. These services generally are:

- Public safety
- Street maintenance
- Planning
- Parks and recreation
- Libraries

These services include 67% of the state's local law enforcement and 65% of fire personnel. However, even public safety services for cities are provided by a mix of entities: many cities contract with another county, city or tribal police for their law enforcement.

Over 100 cities operate their own courts while 17 contract with another city and the remainder contract with a county district court for hearing misdemeanor cases. Over 70 cities are annexed to or jointly operating with fire districts for fire and/or emergency services.

However, cities also provide enterprise services, primarily utilities, which are required to be self-supporting through user rates and fees. City water utilities provide 79% of the state's domestic water needs. City-owned electrical utilities serve more than 570,000 customers, providing more than 20% of the state's electricity needs.

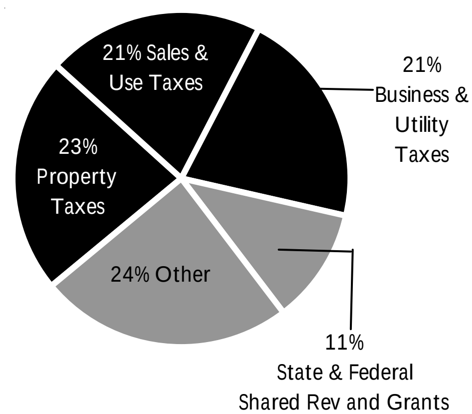
Major capital expenditures such as street construction are funded separately and paid for with a variety of longer term sources including bond issues and other long term debt, grants, dedicated sources, such as the real estate excise tax, and/or subsidized with contributions from the general fund.

City service levels

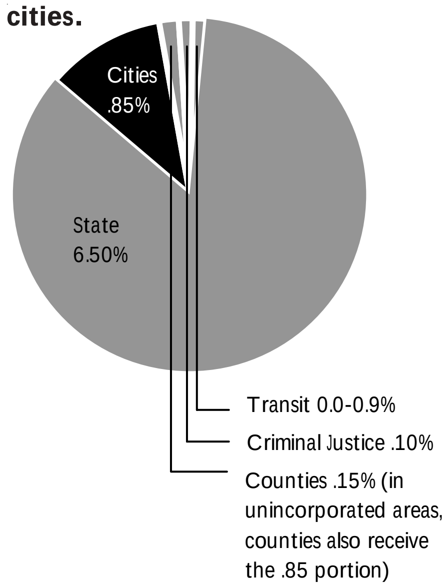
	City service level expectations	% of operating budget (includes services provided with restricted revenues such as gas taxes, hotel/motel taxes)
Public Safety	Rapid response time, intensive police patrol, traffic control, property surveillance, animal control, & higher law enforcement officer per population ratio, paid 24-hour fire staff, and emergency medical services	43% (does not reflect cost of service for cities that are annexed to fire districts)
Streets	Sidewalks, street lighting, traffic signals, signage, and increased maintenance	23% (does not reflect capital construction)
Parks & Planning	Manicured, paved parking, provide irrigation, restrooms and other facilities, recreation programs, and enforcement. Community development & planning for growth.	20%
Public Works	Centrally-treated water supply, sewer systems, & curbside refuse collection	N/A for operating budgets of most cities – generally paid for for out of "enterprise funds" which operate as legally separate entities and are supported by user charges

In the operating budget, property taxes, sales taxes, and business and utility taxes are the three major revenue sources for cities. These three revenue sources account for approximately equal portions of two-thirds of city operating revenues. Within the operating budget, some revenues are restricted by statute for a specific purpose. Restricted revenues include the gas tax, impact fees, criminal justice sales tax, real estate excise taxes, and hotel/motel taxes. Normally, the remaining general purpose unrestricted revenues include property taxes and utility taxes. Restricted revenues are included in this overview to show a more complete measure of a city's revenue structure, but it does not fully demonstrate the discretionary ability to pay for programs. Most new revenue authority recently granted to local governments has included restrictions, e.g. the criminal justice sales taxes approved in 1990 and 2003.

Property taxes, sales & use taxes, and business & utility taxes account for two-thirds of city operating revenues.



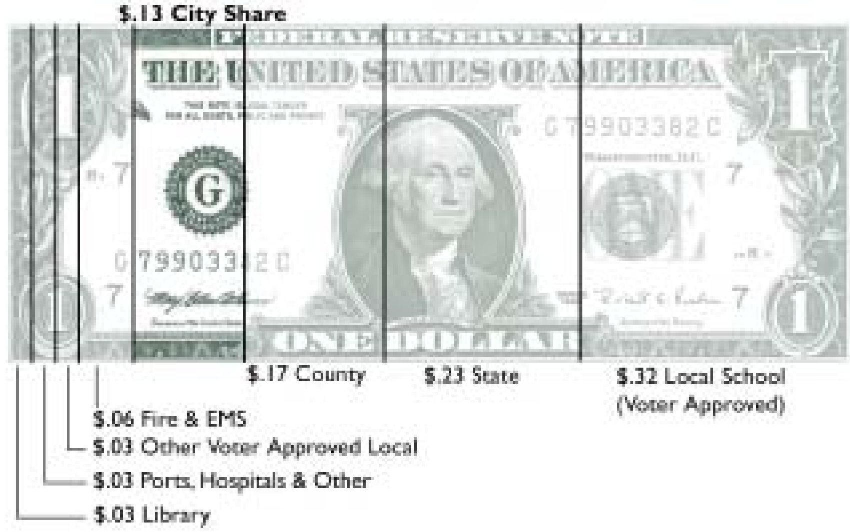
Allocation of sales tax collected in cities.



“Revenues aren’t growing and the community continues to require the same level of service, while costs increase.”

Andrew Dempsey, City Manager, Covington

Cities receive only 13 cents of each property tax dollar.

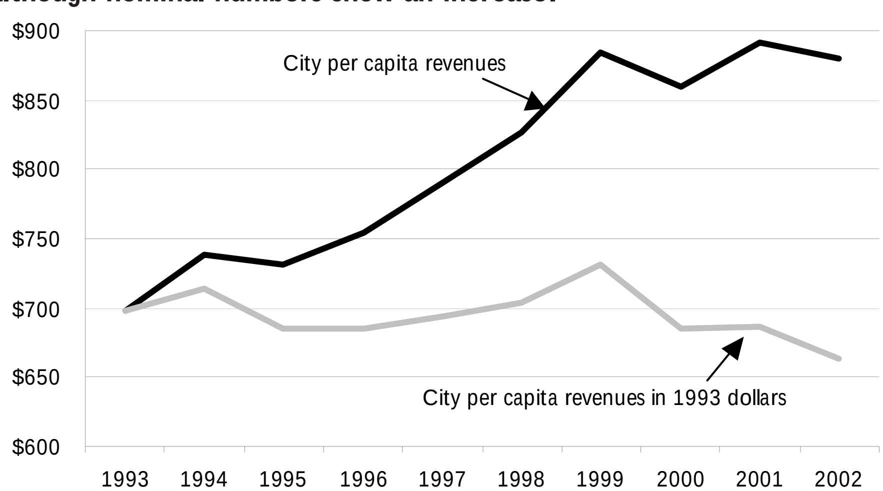


As will be discussed in the next section, national trends and structural changes in Washington state’s tax structure, place pressure on all three major revenue sources for cities, making it a challenge to pay and plan for city services. City dependence on these resources also varies substantially. Commercial centers tend to have a greater reliance on sales and business taxes, while central cities tend to be even more diversified than the state. Rural areas and residential cities tend to be more dependent on property taxes.

The adequacy of funding for local services varies widely for cities, depending in part on the business activity in their communities and other economic conditions among the citizens that live there.

While revenues have grown for most cities over the last ten years, particularly during the boom of the 1990s, overall they have not kept up with inflation. Compared to 10 years ago and adjusted for inflation, per capita revenues are 5% less. For those cities that did not benefit from the 1990s economic boom, revenues only marginally increased in the 1990s and the situation has become steadily worse.

When adjusted for inflation, per capita revenue has actually declined, although nominal numbers show an increase.



National trends

Nationally local governments are experiencing financial problems. Economic troubles on the national level and new duties imposed by the federal government have affected the bottom line for cities.

According to a national survey of city officials, city fiscal conditions have worsened since last year, as reported by 61% of city officials. And six in ten (60%) say that city fiscal conditions are currently either a major problem (21%) or moderate problem (39%) in their city.[1] The survey lists health care costs, employee wages and pensions, infrastructure needs, the city's tax base and economy, and increased public safety spending as negative impacts on local budgets.[2]

"For the very first time, the city's budget is in very dire straits, and we really need some kind of help."

Pam Olson, Clerk/Finance Director, Brewster

Tough times and getting tougher

Cities in Washington mirror these national trends: seven out of ten (73%) report worse financial condition than five years ago; seven out of ten (73%) anticipate that conditions would be worse next year; and eight out of ten (82%) expect conditions to worsen in five years.

This outlook may be a reflection of the structural changes in the economy during the last 15 years:

- Narrowing of the tax base as more of the economy transitions to a service base;
- New technology shifts transactions from traditional to internet sales and other uncollectible forms;
- Tax limiting initiatives; and
- Increased service demands on cities.

As mentioned in the community conditions chapter, one of the major transitions in the economic structure is the shift to a service economy. Since the tax structure of the state and cities is based on manufacturing and commercial activities, as the economy shifted to a service base, the tax base has not shifted to capture the full measure of those activities.

Major tax changes for Washington cities

1935	Liquor tax imposed with local share
1937	Motor vehicle excise tax imposed with local police/fire distribution
1970	Local 0.5% sales tax authorized for cities and counties
1971	106% property tax limit
1977	Food exempted from sales tax
1982	Local sales tax authority increased to 1%
1982	B & O tax limited
1990	0.1% criminal justice county sales tax (shared per capita with cities)
1997	Referendum 47 property tax limitation
2000	Motor vehicle excise tax repealed (Initiative 695)
2001	Initiative 747 local property tax levy increases limited to 1%
2002	Initiative 776 local vehicle license fee repealed
2003	0.3% county criminal justice sales tax (shared with cities)

“We’re trying to build high tech and commercial sectors, but we don’t have the tax base.”

John Sherman, City Supervisor, Pullman

Rising dependence on sales/excise taxes

Washington State has shifted significantly to a dependence on sales tax to fund state government. In 2004, Washington relied on the sales tax for over 50% of its general fund revenues. In addition, the state derives almost 25% of its total revenues from excise taxes (business and occupation, real estate, utility and tobacco).

At the same time, there has been a winnowing of state and local government’s tax bases. An exponential growth in remote commerce, particularly internet sales has shifted sales taxes away from traditional storefront transactions. Court decisions related to telecommunications and other utilities have narrowed the scope of taxation of those activities.

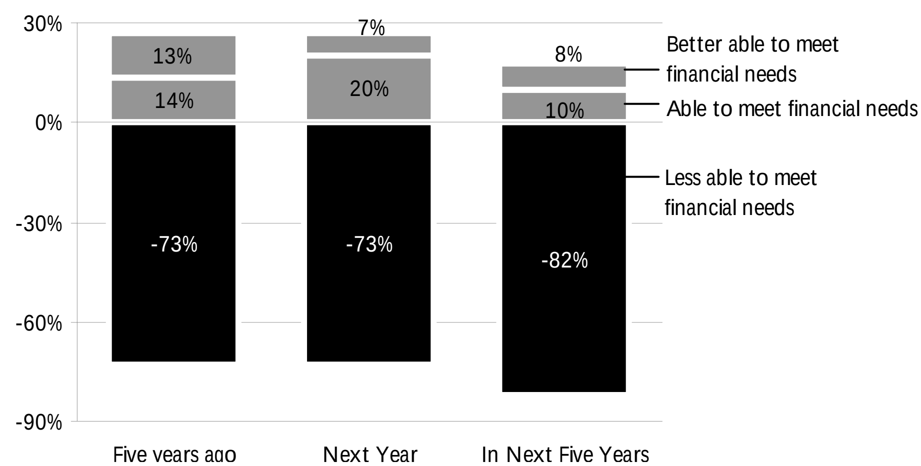
Since Washington State has a high dependence on sales tax revenue and a higher than average proportion of citizens who make purchases on the internet, this will continue to be a major drain on the sales tax base. A recent study found that the Seattle-Tacoma area ranked fifth in the nation in internet connectivity, with over 70% of the residents linked to the internet.[3]

Washington State is lagging behind the national recovery, and as mentioned in the overview, the character of this recovery may have long term consequences for the structure of city finances. Fortunately, Washington is more diverse economically now than in previous economic downturns. This could signal that one way for the state to diversify is by ensuring that those city services which promote economic development can continue to be funded.

The ability of a community to overcome its fiscal difficulties is often dependent on the local economy. In small commercial center cities, 33% of the city officials predicted that they would be better off next year, while 67% indicated they would be worse off. In addition, 33% of the respondents in small commercial center cities predicted that their financial situation would improve in five years, while 44% indicated they would be worse off. Many of these same communities are those that experienced some of the most significant growth in the 1990s.

100% of the residential cities in metro areas, surrounded by other communities without room to expand, reported that they expect to be worse off in five years.

City officials expect to be less able to meet financial needs.



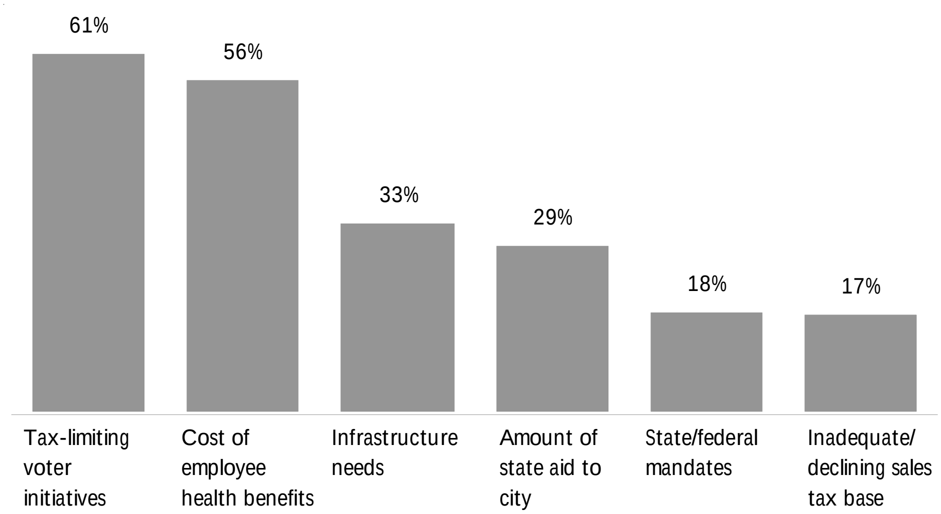
Assessing the health of Washington's cities

Increased costs impact cities' ability to continue levels of service to their citizens. When asked to report their top three negative budget influences, city officials reported the following top six negative budget influences:

- Initiatives
- Healthcare costs
- Infrastructure needs
- State aid to cities
- State/federal mandates
- Declining value of the sales tax base

These priorities remained fairly constant for all groups of cities, particularly for the first three items: initiatives, healthcare costs and infrastructure. The first two of these will be addressed below, and infrastructure will be addressed in more detail in later sections of this report.

The top 6 negative budget influences as reported by survey respondents.



Cities also listed the following as detrimental factors to maintaining services. These additional items were generally related to the economic downturn or specific cost increases, including:

- State aid to cities for residential, moderate commercial and rural communities;
- Employee wages and costs, primarily for retail hubs, commercial centers and central cities;
- Liability coverage for regional centers and tourism/light industrial hubs; and
- State/federal mandates for tourism/light industrial hubs, moderate commercial and small residential cities.

"We've lost a little in excess of fifty percent of our general fund. When you're running at approximately 17% of the state average, you can't take those types of hits. We've cut our police contract. We're selling a fire truck because we can't pay the insurance on all the equipment. We're right down to the last. We're cutting everything now, hoping to last another year."

Steve Jenkins, Mayor, Bridgeport

Initiative impacts

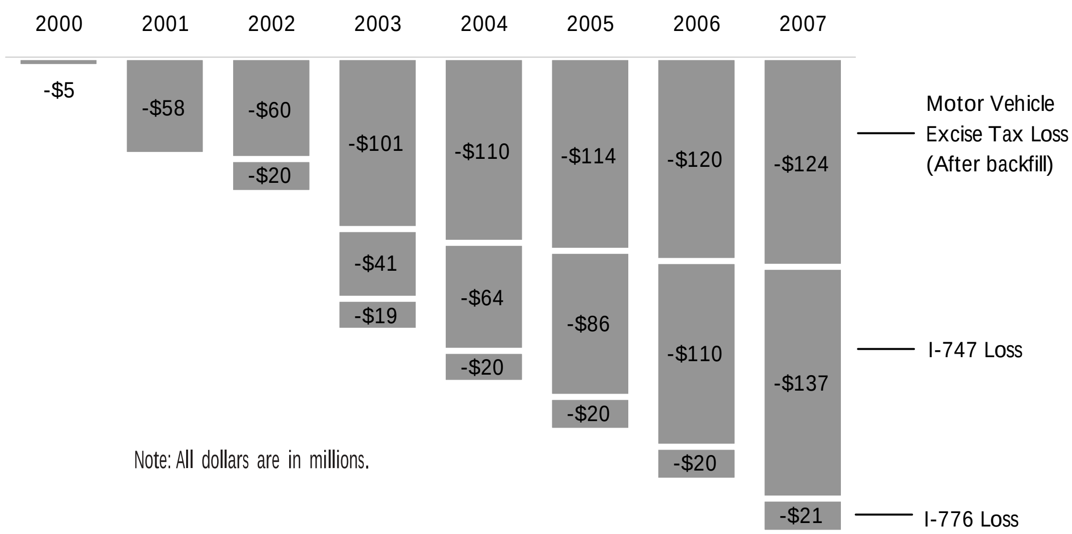
Regardless of how individual cities fared during the 90s, virtually every community in our state faced significant challenges as the state and national economic picture worsened and a wave of tax-limitation initiatives began in 1999. The repeal of the motor vehicle excise tax after Initiative 695 was declared invalid, the 1% property tax limitation (Initiative 747) and Initiative 776's repeal of the local license fee that cities used to match transportation grant dollars will cumulatively cost cities over $1.2 billion in revenue by 2007.

These three initiatives have dramatically altered the revenue structure of cities, and initiative impacts grow every year. Initiatives show up as the most frequently cited of the top three negative budget influences: 61% of cities.

- I-695/MVET repeal resulted in a loss of over $100 million per year to cities.
- I-747 1% property tax levy limit is estimated to result in a $86.3 million loss in 2005.
- I-776 permanently repealed local vehicle license fees that cities used for grant matching funds - $19.9 million loss for 2005.

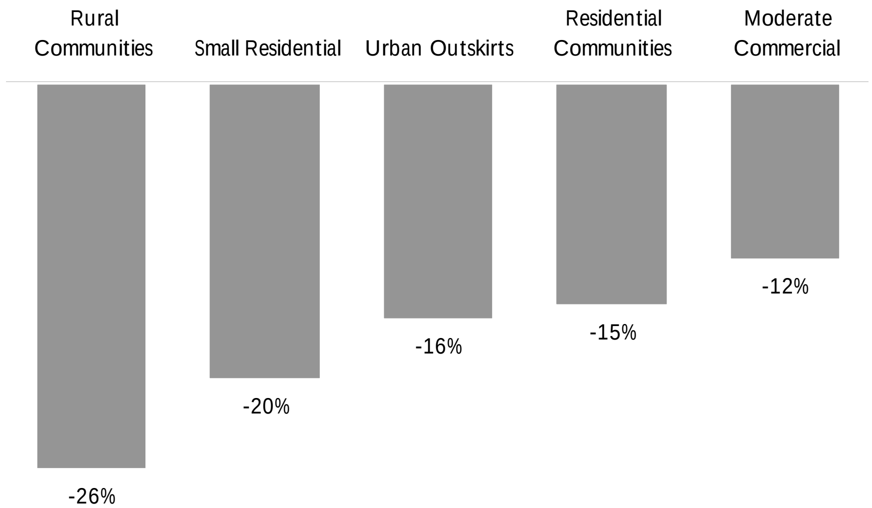
With the repeal of the motor vehicle excise tax (MVET), cities lost over $100 million per year. The impact of that loss, however, was unequal. Jurisdictions that were former sales tax equalization cities, in which the state provided state shared revenues to cities with significantly below average sales tax revenues, saw substantial decreases in their operating revenues. In the first couple of years after the initiative, backfill assistance was provided to all cities, but directed towards the most significantly impacted. However, it has decreased steadily since 2003, with just $2 million designated in 2005 for only the most severely impacted.

Cummulative initiatve losses will grow to $1.2 billion by 2007*



Some groups of cities were more significantly impacted than others by the MVET repeal. The residential, small, and rural cities clusters had average impacts over 10% of operating revenues. Rural communities had the most significant impacts, which ranged from 4% to 57% of the operating budget of those cities, but averaged 26%. Other small, urban outskirts, moderate commercial and residential cities had significant impacts.

Motor Vehicle Excise Tax (MVET) losses dramatically impacted budgets in certain groups of cities.



In cities like Bridgeport (population 2,070) a rural city with an agriculture based economy, and Steilacoom (population 6,120) a city in the urban outskirts, declines in state funding related to the MVET elimination and lower levels of backfill have had a devastating impact on city budgets.

- Bridgeport eliminated funding for all street projects including maintenance, cut the police contract with the county below 24 hour coverage, depleted reserves, and now is looking at cutting further to survive on a year by year basis.
- Steilacoom, Washington's oldest town, restructured substantially in the wake of the initiatives, relocated offices to other city facilities to rent out its historic town hall, and has been pursuing economic development options for the mill that closed during the late 1990s.

Initiative 747 similarly impacted cities that had a low sales tax base, since a larger portion of their budgets depended on property taxes. In addition, the one percent limitation is impacting those cities experiencing large amounts of growth in assessed values. The one percent limitation does not allow those cities to keep pace with the costs of maintaining services associated with that growth.

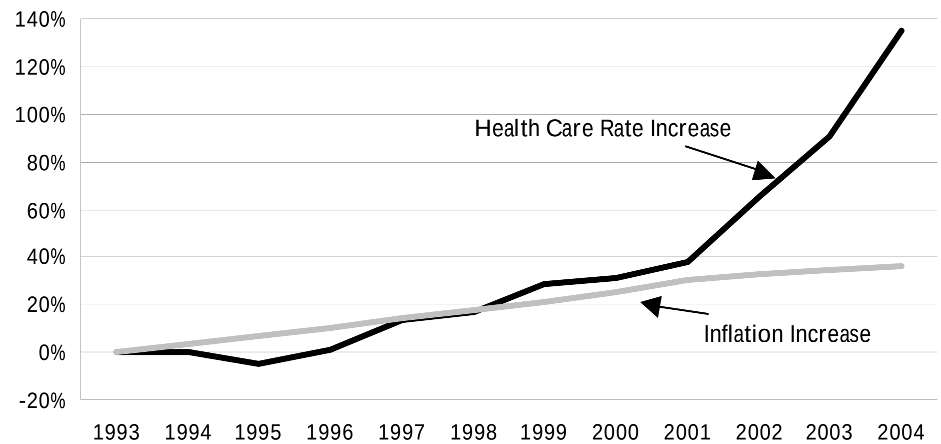
In response to the initiatives, cities adopted a variety of responses to the impacts. The responses were generally a combination of actions that included program cuts, raising or adopting taxes or fees, increasing reliance on user fees, and delaying capital programs.

> "Cities are being strangled by health care costs. Fifteen years ago when cities developed their employee benefit packages, no city could have foreseen the 15 percent annual increases in health care costs or the price of prescription drugs – but they're here now, and they're real."
>
> Cary Bozeman, Mayor, Bremerton

As a result, the majority of the average citizens in incorporated areas have not seen visible service impacts from the initiatives. This is in part due to the work of city officials to preserve essential services. Cities also have tapped into their rainy day reserve funds, which fortunately were available in those communities who could set aside funds during the boom years of the 1990s.

However, as those funds dwindle, some cities are left with only difficult choices, including elimination of services. These choices pose substantial impacts for lower income communities with less opportunity for economic expansion.

Health care costs outpace inflation.



Health care

The second most cited budget influence was increases in employee health care costs. Major health care increases were cited by 86% of cities as significant budget drivers, with over half of survey respondents (56% of respondents) identifying these increases as one of their city's top three negative budget influences. This is not a surprising result given that health care costs for Washington's cities have risen by 135% percent since 1994, outpacing inflation and city revenue growth and they are expected to rise in 10-15% annual increments for the next several years. While these increases put a strain on city budgets, cities have to provide benefits for their employees who keep our communities safe and provide the services citizens demand.

The rising concern over increasing health care costs in cities, which together with other benefits is currently about 9% of the average city's budget, can be attributed to a combination of the following factors:

- Limited revenue
- Multi-year, double-digit health care cost increases
- Maintaining quality benefit package to keep/attract employees
- Demands and/or constraints of negotiations
- Many industry experts are predicting continued double-digit health care increases for the next 3- 4 years, while municipal budgets are already stretched to the limit.

Some factors that are driving rising health care costs are out of our control, but it is important to be aware of the structural cost drivers:

- Changing demographics - aging work force
- New, more expensive technologies & treatments
- Increased utilization of benefits
- Rising doctor & hospital fees
- Increasing prescription drug costs
- Rising malpractice insurance costs
- Impact of state & federal mandates
- Government cost-shifting

Total health care spending in the United States increases 7.3% each year. In 2003, $1.5 trillion was spent on health care, roughly 14% of the gross domestic product. As the baby boom generation ages and the demand for health care services and for Medicare and Medicaid grows, the cost of health care will only grow in importance.[4]

Cities in Washington encourage more healthy behavior by employees and many cities participate in an employee benefit trust to help stretch their healthcare dollars. Many are also considering options for incentives that encourage employees to make cost-effective health care choices. The kinds of benefit change that are occurring range from varying degrees of employee premium contributions to increasing deductibles and co-pays to development of dual coverage policies (i.e., employees who doubly insure their spouses and/or children).

Little can be done at the state level and a national fix is not likely in the short-term. Cities are looking into areas for cost savings, and the state does have some control over growing liability costs that drive some of the health care cost increases. However, these cost increases are limiting the availability of resources for other priorities and services.

Infrastructure

The third most cited budget influence was infrastructure (33% of respondents). This issue will be addressed in the transportation and water, sewer and stormwater sections of this report.

In the past six years, 30% of the cities showed decreases in capital investment and 69% delayed capital programs. Delays were reported most frequently by central and commercial center cities.

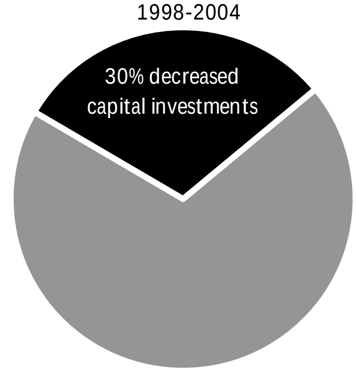
Like the overall budget situation, cities expect this infrastructure problem to get worse in the future. 71% expect to delay programs in the next six years. As will be discussed in the later chapters of this report, this can have dire consequences for the state's fiscal health.

"The steady erosion of legislative backfill has placed a great deal of pressure on our ability to provide basic services."

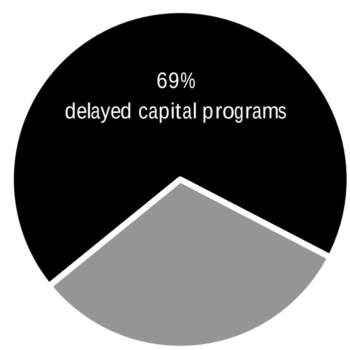
Merlin MacReynold, City Manager, Normandy Park

Cities are decreasing capital investments and delaying capital programs.

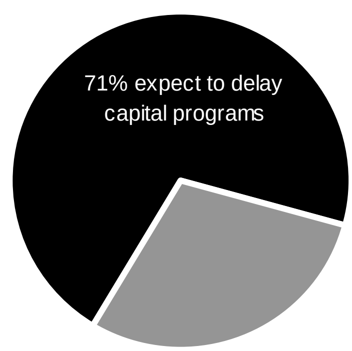
1998-2004



1998-2004



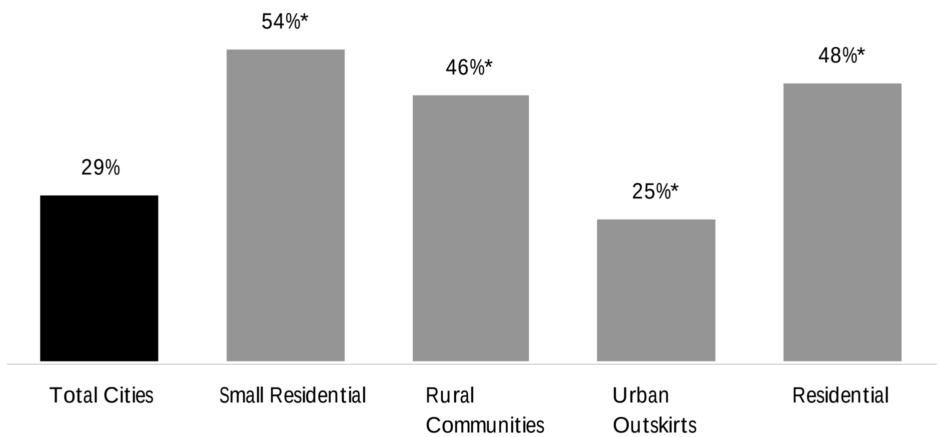
2005-2011



State aid to cities

The fourth most cited budget influence was state aid to cities and is related to the decline in sales tax equalization and backfill funding from the repeal of the MVET. The cities that were most likely to indicate this factor are largely residential or rural communities that have a limited level of activity.

Selected groups of cities reported that the lack of state aid to cities is one of their top three negative budget influences.



* Percentage of city officials reporting lack of state aid as a major negative factor.

The survey also examined whether state aid impacted their budget. Overall almost 57% cited a decrease in state aid, with 41% citing a major decrease. Groups of cities citing major decreases included largely residential and rural communities with varying income levels among their residents. However, central cities also experienced substantial revenue decreases, primarily with the loss of population based MVET distributions which included portions of municipal criminal justice assistance. The inability of population based distributions, like the gas tax, to keep up with city population growth also impacted budgets.

Some groups of cities reported substantial decreases in state aid.

	Major decrease	Minor decrease	Total
All Cities	41%	16%	57%
Residential Communities	70%	4%	74%
Central Cities	57%	29%	86%
Small Residential	54%	8%	62%
Urban Outskirts	52%	12%	64%
Rural Communities	48%	15%	63%

Impact of state and federal mandates

Over the past several decades, the state and federal government have imposed a number of mandates without providing cities with the means to meet these new challenges. The survey results show that 18% of the cities consider mandates as one of their top three budget influences, but almost eight in ten cities cited that mandates had impacted their budgets: 33% cited them as a major increase and 46% stated they were a minor increase. Certain categories of cities were more likely to indicate mandates as a major budget influence: small cities with a tourist/industrial economy, residential cities and urban outskirt cities.

Selected groups of cities cited increases in mandate impacts.

	Major increase	Minor increase	Total
All Cities	33%	46%	79%
Tourism/Light Industrial	45%	45%	90%
Small Residential	77%	15%	92%
Rural Commercial Centers	40%	60%	100%
Urban Outskirts	33%	39%	72%
Medium Retail Hubs	33%	67%	100%

While many of these are policies that cities support, the burden of implementing them has fallen to local jurisdictions. City officials shoulder the costs and service responsibilities for requirements such as the Growth Management Act (GMA), new stormwater requirements, the Endangered Species Act, and mandatory requirements for driving under the influence violations (DUI).

In addition, new responsibilities related to homeland security are expected to have an ongoing impact to city budgets. Almost 68% cited homeland security as an increased cost, including 25% citing it as a major increase. These mandates are especially being felt in the central cities and communities with mixed and retail commercial bases.

Cities most impacted by new homeland security mandates.

	Major impact	Minor impact	Total
All Cities	25%	43%	68%
Mixed Resources	29%	71%	100%
Medium Retail Hubs	33%	67%	100%
Central Cities	43%	57%	100%

Many of the mandates cited by cities in the survey data tended to be related to the operation of utilities and the pressures on the rate base to undertake the new projects. These mandates impact every city's bottom line, but smaller tourist centers like Ocean Shores (population 4,065) where residents have relatively low incomes and growth rates are even harder hit since their citizens cannot absorb rate hikes to pay for upgrades. This issue will be addressed in more detail in the transportation and water, sewer, stormwater chapters.

Value of the sales tax base

The sixth factor cities indicated as a negative budget driver is the lack of an adequate sales tax base. Two in ten cities cited it as one of their top negative budget influences, and 36% of cities cited decreases in their sales tax base as a negative growth factor. As will be addressed below, however, a slightly larger proportion of cities cited it as a positive budget influence.

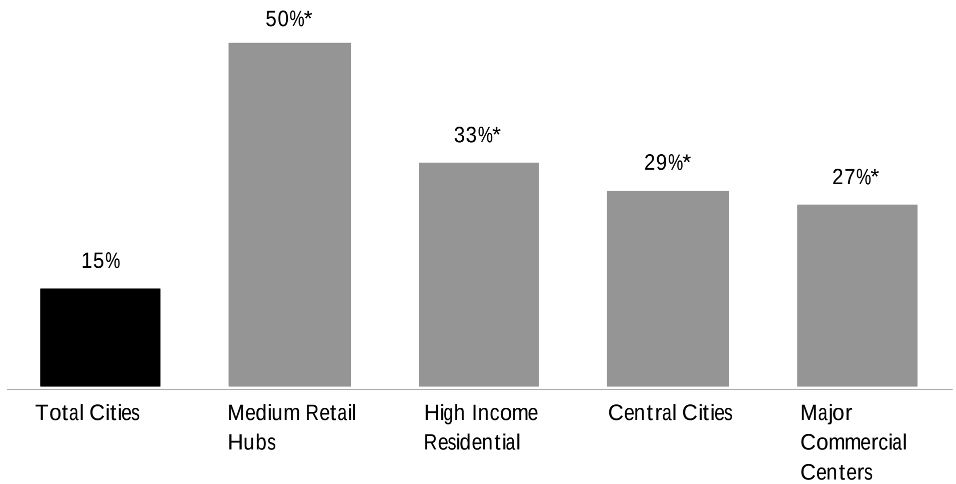
Other budget influences

Employee costs

Personnel wages and benefits are about 60% of the average city's budget. That means that revenue reductions for cities can quickly translate into personnel and service reductions. Staff levels also vary in cities from full service departments in larger cities to staffs of four or less.

Overall two in ten cities cited this factor as one of their top three influences, but employee costs were cited as a negative budget driver primarily in retail hubs, commercial centers and central cities.

Employee wages/benefits as one of top three negative budget influences



* Percentage of cities reporting employee wages/benefits as one of the top three negative budget influences.

External factors affect how a city can adjust employee costs. Some are driven by state mandates on how salaries and benefits are negotiated; others are driven by regulations specifying how a service may be delivered once it is offered in a city.

General costs of doing business – prices, inflation and costs of living and the impacts of growth

Over 95% of city respondents cited increases in prices, inflation and cost of living, and of this almost three in ten (27%) cited major cost increases as a negative impact. Small residential, moderate commercial centers, and rural areas cited these as major cost increases by even larger margins.

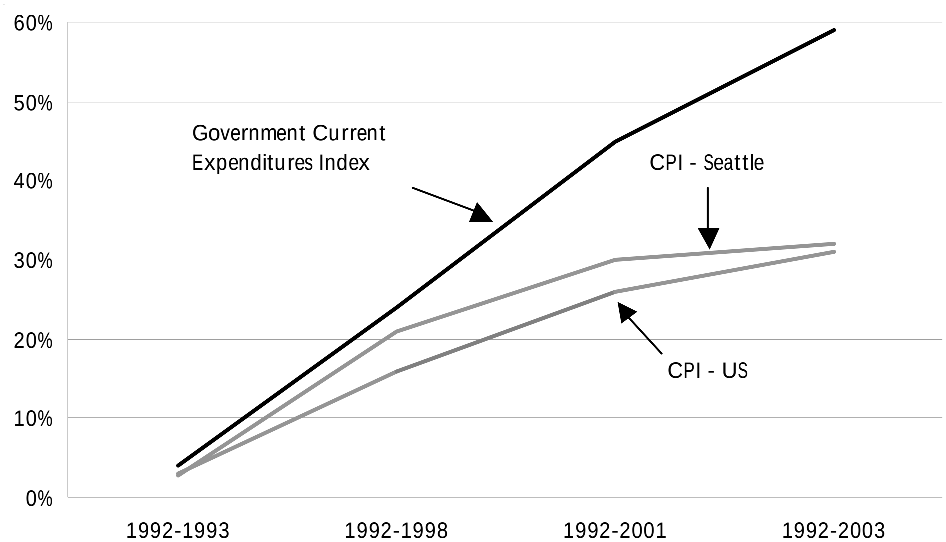
Small cities affected by increases in inflation.

	Major increase	Minor increase	Total
All Cities	27%	68%	95%
Moderate Commercial	46%	54%	100%
Small Residential	46%	46%	92%
Rural Communities	33%	56%	89%

While cities have been working to do more with less, expenditure growth overall in the last 10 years has outpaced inflation. In particular, law and justice expenditures have grown significantly faster than inflation. For cities that provide police, courts, fire and EMS services, public safety expenses grew 71% from 1993-2002, twice the inflation growth of 32%.

Cities that experienced high levels of growth experienced similarly increased demands on services. Six in ten cities (58%) cited the costs of growth increases, of which 20% cited major increases. Many of the challenges cited in later chapters result from the infrastructure costs and service demands related to growing communities.

Government Price Index vs inflation, 1992-2003



Liability costs

The survey also asked two questions about the impact of liability on city costs. Half of the respondents identified increased costs of defending cities and towns in lawsuits as a budget influence. Costs of defending the city were cited as major problem more often in central, commercial and retail hub cities.

These results correlated with eight in ten cities (88%) noting liability coverage increases. For the jurisdictions citing costs of defending the city, four of ten cited liability coverage as a major cost increase overall, but 71% of central cities and 70% of small commercial centers noted these as major cost increases.

Liability costs impacted certain cities.

	Cost of defending the city increases			Liability coverage increases		
	Major	**Minor**	**Total**	**Major**	**Minor**	**Total**
All Cities	20%	33%	53%	39%	49%	88%
Rural Commercial Centers	40%	50%	90%	70%	20%	90%
Central Cities	43%	29%	72%	71%	14%	91%
Tourism/Light Industrial Hubs	27%	45%	72%	55%	36%	91%
Major Commercial Centers	30%	40%	70%	20%	70%	90%
Small Commercial Centers	33%	33%	66%	33%	56%	89%
Medium Retail Hubs	33%	33%	66%	22%	67%	89%
Residential Communities	22%	43%	65%	43%	48%	91%

"The bottom line is simple, we are broke. The reserve fund was depleted between 2000 and 2003."

Rick Cisar, City Administrator, Sultan

"In the past two years, we've increased user fees for parks & recreation programs, cemetery, building permitting and library use."

Mike Bren, Former Mayor, Grandview

Positive budget impacts

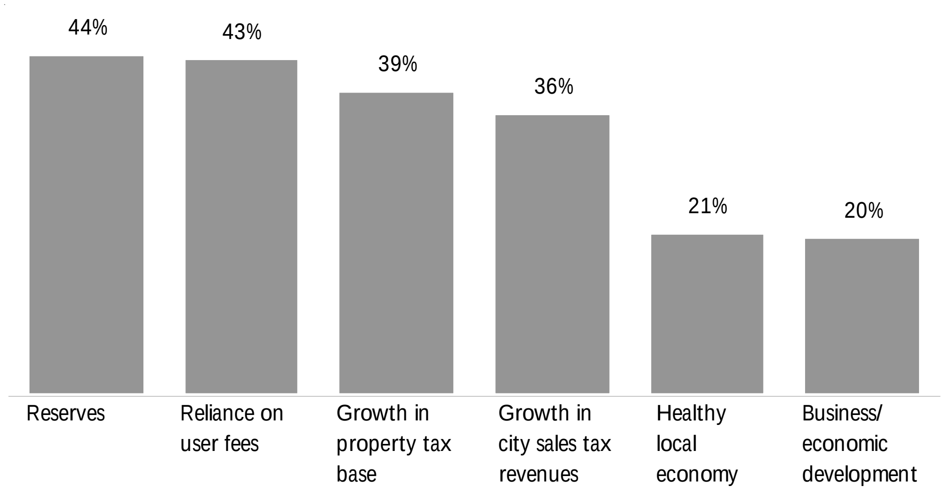
The survey also asked cities to designate their top three positive budget influences. The items listed by cities as positive budget influences were much more diverse than the negative influences. However, they generally reflect cities' responses to the initiatives, economic downturn and, for some, the impacts of growth.

The following were defined as the top six positive influences:

- Availability of reserves
- Reliance on user fees
- Growing property tax base
- Growth in city sales tax revenues
- Healthy local economy
- Business/economic development.

The largest number of cities cited reliance on reserves (44%) and user fees to maintain services (43%). Most of these are also short term solutions that have helped mask the impact of the fiscal situation of many cities, and which may no longer be options for cities experiencing their fourth or fifth year of budget shortfalls.

Top 6 positive budget influences - % of respondents listing as one of three positive budget influences



Use of reserves

Cities have been able to maintain services with their reserves. However, once the reserves are depleted, cities will be forced to cut more services. Over half of cities and towns (59%) responding showed a decrease in reserves and reported using reserves to balance the general fund; one in three (31%) responded they experienced a major decrease in their reserve funds. This is particularly pronounced in regional and rural commercial centers, in which 88% and 80% respectively reported a decrease in reserves.

Selected cities report decreases in reserves.

	Major decrease	Minor decrease	Total
All Cities	31%	28%	59%
Regional Centers	38%	50%	88%
Rural Commercial Centers	40%	40%	80%

While some clusters were overall below the statewide average, the most pronounced use by individual cities, including several that completely depleted their reserves, was in individual rural and urban outskirt cities. In the next five years, individual cities in residential and commercial centers also reported that they will use substantial amounts of reserves, including some, like Normandy Park, that will have completely depleted their reserve funds.

Shift to user fees

Almost 6 in 10 respondents (57%) indicated increased reliance on user fees. While this was cited as a positive influence by 43% of cities, some (3%) viewed this rising dependence on charges for services as a negative influence.

This is also a public policy issue - how to balance limited resources and preserve quality of life programs and services that contribute to the sense of community and help attract new residents and businesses. A shift to user fees is also more of an option in areas that have a large base on which to spread the user fees. In lower income and older populations, user fees are less of an option. Those jurisdictions make hard choices between preserving popular programs and directing funding for public safety and city operations.

Property and sales taxes

Property taxes and sales taxes showed up as both positive and negative influences for cities.

Where the effects of I-747 were felt without expanding new construction base and more reliance on property taxes for city revenues, primarily rural and residential areas, the property tax base was a negative influence. Sales tax was listed as a negative influence as well, in part in recognition of three factors:

- The decline in the economy leading to decreased spending in local communities;
- Loss of sales tax equalization funding with the repeal of the motor vehicle excise tax; and
- Loss of sales tax revenues due to structural changes in the sales tax base.

Where cities had diversified economies and higher levels of growth, sales and property taxes were more likely to be chosen as a positive influence. Other individual cities have successfully worked with their voters to approve levy increases in excess of the one percent limitation to make the property tax a positive influence. In addition, the business climate/economic development showed up as a more significant positive influence for many of these same groups of cities, reflecting a capacity within the city to grow its economy.

“We’ve been living on borrowed time – reducing reserves and scraping together savings in one year to pay for expenses in the next – in an attempt to cope with lost revenues and higher costs. Now the clock has run out. To deal with a $10 million shortfall for 2005, we identified our priorities and eliminated functions we couldn’t afford. We’ll have fewer police officers and firefighters, reduced hours at our libraries, a loss of parks programs, and many other impacts.”

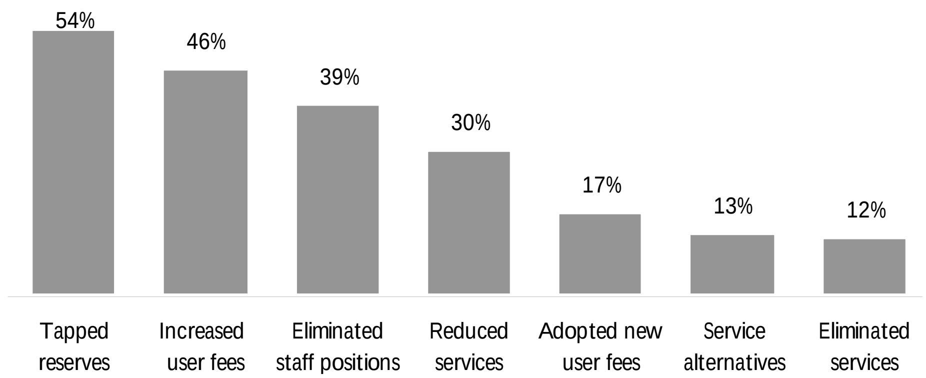
James West, Mayor, Spokane

What we have done to help ourselves

Faced with a tightening budget vise, city leaders have worked in a variety of ways to try to sustain the most vital services. More and more cities are asking citizens to help prioritize critical services - the elements that are essential for their city.

Many cities tapped deep into reserve funds to preserve services for the short-term. Others imposed user fees or increased local taxes. A number of cities eliminated staff positions, often in the face of increasing local populations and increasing demand for services. And many communities have either reduced services, developed alternative service delivery methods, or eliminated certain services entirely.

Tax limiting initiatives have impacted service delivery: City responses to initiative impacts since 1999



Service alternatives

Cities have been working towards greater authority to operate in the most cost-efficient fashion possible, including partnering with other public and private entities. Some cities have entered into agreements with neighboring jurisdictions with great success. For example, the cities of White Salmon and Bingen successfully merged their police departments in the wake of revenue reductions following the repeal of the motor vehicle excise tax. In 2001, six cities disbanded their police departments to contract with the county for law enforcement.

Cities have also looked to parks and recreation and library districts as a way to preserve popular services while shifting responsibility for these services to other local governments that do not compete with city services. Since 1999, eleven cities annexed to library districts, and cities have been exploring additional options for parks, such as creating parks districts or operation of facilities by non-profit corporations.

For those more geographically isolated, partnering is a much more difficult option. There are not economies of scale to be gained or logical partners close enough to make partnering a reality.

Using available revenue options

Rural communities and urban outskirts show up more often as having used up their revenue authority or responded that they lack a sufficient tax base for remaining options. For those cities that have not technically used up their available options, they noted that the remaining options were not viable, primarily due to opposition of their voters or the business community, border city competition with other state tax systems, or lack of a sufficient base to make the option worthwhile imposing.

Conclusion

Washington's cities have shown that they know how to make the tough choices and squeeze the maximum level of service out of their limited resources. But cost-cutting and user fees can only take our communities so far – unless we give our cities and towns the tools they need, the result will be a slow but steady erosion in our economic competitiveness as a state and a similar decline in our overall quality of life.

The key is to provide resources to the cities that need them most, and ensure that these communities do not continue to fall further behind in the delivery of basic services. Any solution to our economic downturn must recognize that one-size tools and funding options do not fit all. Cities need a local government tax structure that provides broad local control, significant flexibility, and sufficient local revenues to provide services.

"We have from 4-7 years of operating costs for general fund . . . at that time we will probably become a utility district because we will be unable to provide any other service."

Crystal Richer, Clerk/Treasurer, Creston

Some cities have nearly reached the breaking point. In Wapato, a rural community of 4,500 with an agriculture based economy, the combination of a declining economic base and increasing costs has pushed the city's resources to the brink. The city has virtually exhausted its reserves and has no room to increase property or utility taxes to meet rising costs.

Large cities are struggling as well. Spokane, facing a major shortfall in 2005, was forced to reduce public safety services as well as those that are important for economic development.

If they have access to the right tools and resources to help them keep up with infrastructure and streets and maintain quality of life and economic development services, some cities recognize that they can grow out of their fiscal problem.

Other cities, primarily those with lower income bases of residents, geographic limitations to major structural changes in the local economic base, or physical limits on growth opportunities, will need state funding. Some communities need state funding to provide an adequate level of services to their citizens and, in some cases, to continue operating as cities.

This analysis of fiscal conditions is intended to start the discussion with our partners in state and local government. Cities realize that this long-term process is necessary to regain our healthy economy and healthy state.

Endnotes

1 National League Cities, City Fiscal Conditions in 2004
2 National League of Cities, The State of America's Cities 2004
3 Neilson//Net Ratings, April 2003; The Media Audit, 1st Quarter 2003.
4 Minnesota League of Cities, State of the Cities 2004

CHAPTER 4

Transportation: Rough Roads Ahead

Transportation: Rough Roads Ahead

Transportation affects everyone. Whether working, delivering products, taking a vacation or simply taking a walk in the neighborhood, all of us depend on a safe, reliable transportation system. Good connections between our multiple modes of travel are important to the efficient movement of people, goods and services throughout our state. Our transportation systems enhance both the social and economic prosperity of our communities.

"If one part of the system doesn't work, the entire system will fail."

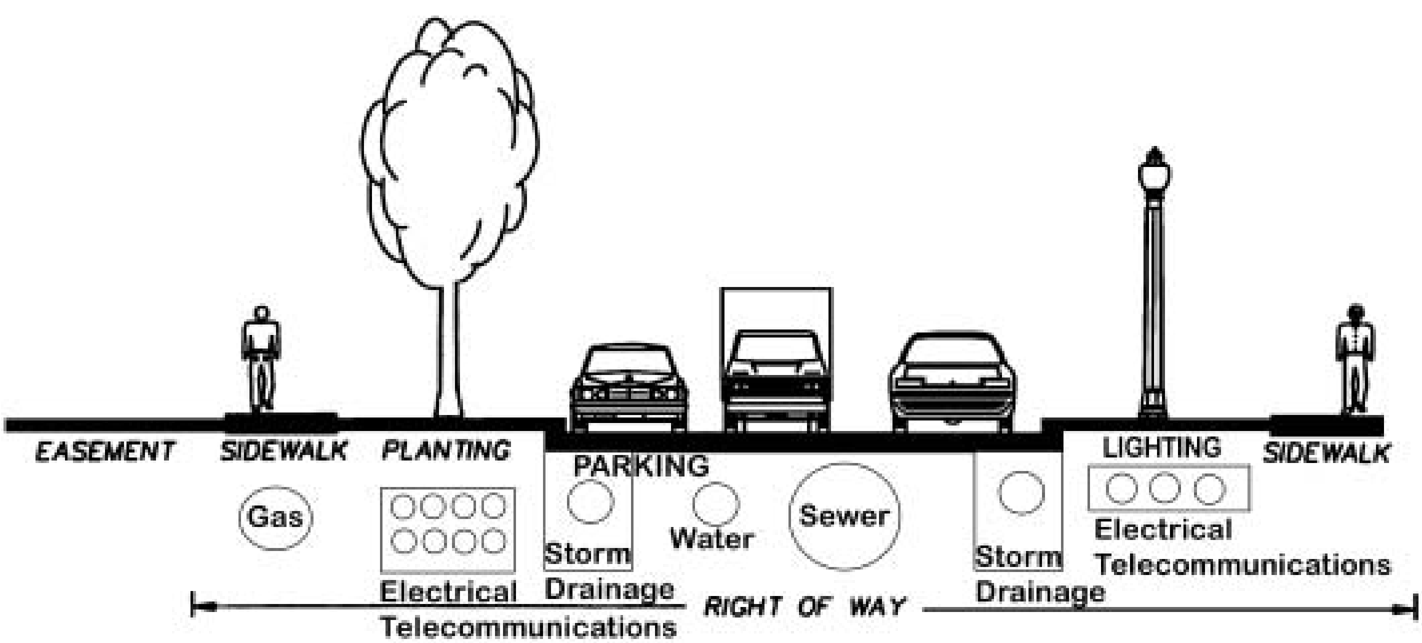
Larry Pursley, Executive Vice President, WA Trucking Associations

For cities, transportation is most commonly identified with city streets. 281 cities and towns across the state own and operate 16,190 miles of streets. 60% of our state's population lives along these streets and nearly 90% of the state's GDP is generated by businesses that use these streets.

People living and working in cities understand the role of the city street for movement and access, but they also understand the symbolic, ceremonial, social and political role of streets. They object to high volumes of fast traffic on their streets, but commonly approve of sidewalks and other improvements that enhance the appeal of their communities. They simply expect more from a city street than they do from a state highway or county road.

What is a city street?

City streets are more than the pavement that facilitates the movement of people and goods. Above ground, the term city streets is expected to include sidewalks, street lighting, parking, and other amenities that integrate into a city center or neighborhoods. Below ground, city streets provide for water lines, sewer lines, and electric cables. This broad definition of a city street is illustrated in the figure below.



"The City of Bingen has had to move more funding from its general fund to street fund. We are using reserve money to keep our street fund balanced."

Jan Brending, Clerk-Treasurer, Bingen

How city streets are managed and funded?

Because of the many functions of a city street, Washington state laws govern how cities plan and fund their transportation systems. Key aspects of Washington laws regarding transportation-planning requirements include:

- All cities prepare and use a public process to adopt a six-year transportation plan.
- The 248 cities that are required to plan under the Growth Management Act have the following additional planning responsibilities:
  - Consideration of multiple transportation modes;
  - Level of service requirements for arterials, including state highways;
  - Requirement for internal consistency with other elements of the city's comprehensive plan, external consistency with regional and state plans, and consistency with adjoining community plans.

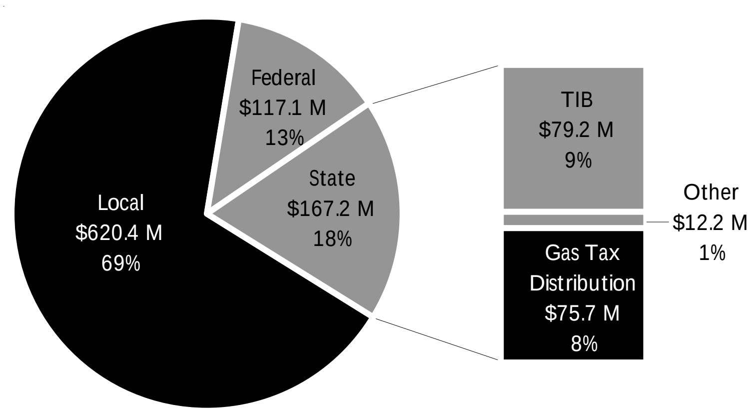
Cities in our state must also devote resources to planning and assembling the funding package that is required to make the needed improvements within their adopted six-year transportation improvement plan and to maintain the existing system. Cities use three primary sources for transportation funding: local, state, and federal funds.

Local funding

Cities rely upon unrestricted general fund revenues to fund approximately two-thirds of their transportation project costs.

Although cities have used unrestricted general fund dollars, these same funds compete with other city services, such as police and fire protection; consequently, a city's transportation budget varies from year to year based on the cities' current priorities. Cities are also faced with balancing capacity and growth with maintenance and preservation needs. Many transportation projects are focused on maintaining concurrency and capacity, which is an outcome of growth and development. This focus pulls funding away from maintenance and preservation efforts. Cities also have local transportation funding options available to them, but many of them have proven to be unworkable due to political or legal issues.

Washington's cities pay for over 2/3 of their transportation funding. Only 8% comes from state gas tax.

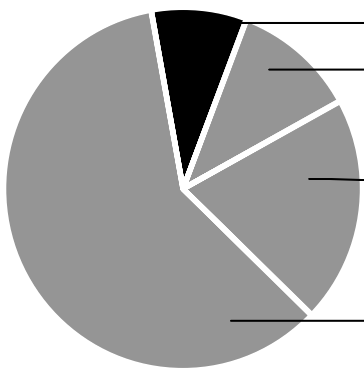


2002 dollars

State funding

The only direct funding distribution cities receive from the state is the gas tax. 2.46 cents of the 28 cent gas tax is distributed to cities based on population and is restricted to street improvements and street maintenance and operation of the street transportation system.

Cities receive 9% of the state gas tax distribution. Grants are also received through the Transportation Improvement Board.



The major source of state grants to cities comes from the Transportation Improvement Board (TIB). TIB receives 3.04 cents of the state gas tax and distributes grants through a series of competitive programs. In a typical year, there are $8 requested for every $1 awarded in grant funding.

Each individual TIB program provides funding for different types of projects and has its own funding criteria:

- The Urban Arterial Trust Account (UATA) funds projects that are designed to improve and upgrade arterial street systems. Typical projects involve geometric upgrades, widening roads, or adding turn signals;
- The Transportation Improvement Account (TIA) is intended to address economic development and growth-related congestion problems;
- The Small City Account (SCA) offers grants for cities with populations less than 5,000. Projects are selected based on the condition of the street, roadway geometrics and safety;
- The Pedestrian Facility Program (PFP) is specifically targeted to projects that enhance pedestrian mobility and safety.

"There's been a shift of burden on cities and a reduction of tax dollars to fund basic services like street maintenance."

Brian Shay, City Administrator, McCleary

Washington State Department of Transportation (WSDOT) currently only has one state grant program available to cities, counties and school districts called Safe Routes to Schools Grant Program. In 2004, this program funded $1 million in projects for the protection of children from traffic deaths and injuries while walking or biking to school. Sixty grant applications totaling $10 million were received during the short four-week grant period. Common components in the eleven projects selected were:

- Community involvement in the development of safety education;
- Enforcement, and/or traffic improvement programs to get more kids walking and;
- Biking to school safely.

Many of the selected projects include improved sidewalk connections or new pathways and safety education for students and parents.

Currently, there are no other state funded grant programs to meet city transportation needs. In the 1999-2001 and 2001-2003 biennium, state funded programs that benefited cities included:

- The Corridor Congestion Relief Program (CCRP) provided $25 million in funding for congested urban corridors in cities and the urbanized portion of the counties. Eligible projects include roadway widening, channelization, signalization, HOV lanes, and Intelligent Transportation Systems.
- The Small City Pavement Program (SCPP) funded $9 million in pavement preservation projects for cities under 2,500 in population. Projects included hot mix asphalt overlays, chip seal and crack sealing. This was the only state program that focused on maintenance and preservation needs and had an average grant size of $50,000.

In general, the financial assistance offered through these programs is limited, and the competition for funding is strong. The grant programs are also driven by state project criteria, which may not match up with city priorities for project selection.

Federal funding

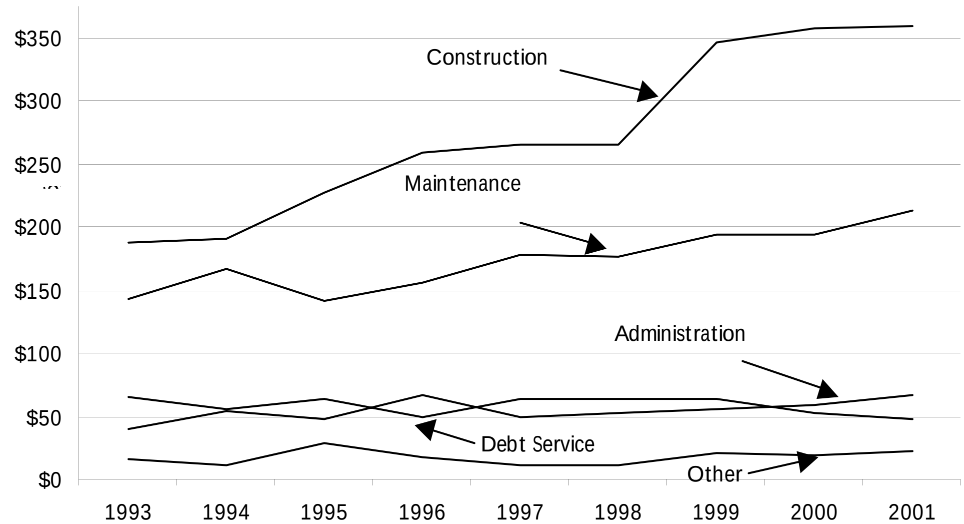
During the six-year period from 1991 to 1997, ISTEA provided federal funding through an array of different programs. When the Act was reauthorized in 1997 and retitled TEA-21, the key program categories remained largely unchanged and the overall funding level increased. The new Act for 2004-2009 is currently being debated in Congress and the programs and funding levels are still uncertain.

Approximately 60% of the funds from the previous two Acts was directed to WSDOT for state highway projects. Local governments received the balance of funds either directly or in a number of different competitive programs:

- The Surface Transportation Program (STP) provided funds for general transportation needs and included special programs dedicated to safety improvements and projects enhancements designed for non-motorized modes of transportation;
- The Bridge Replacement Program (BRP) specifically funded the rehabilitation and restoration of deteriorating roadway bridges; and
- The Congestion Mitigation and Air Quality Program (CMAQP) supported projects that help reduce congestion and transportation-related air-pollution.

The criteria used to award funding under these programs varies significantly. In addition, all required some type of local match and tend to have more administrative requirements than state grants. Typically, federal funding is used to leverage additional support from a variety of state and federal sources.

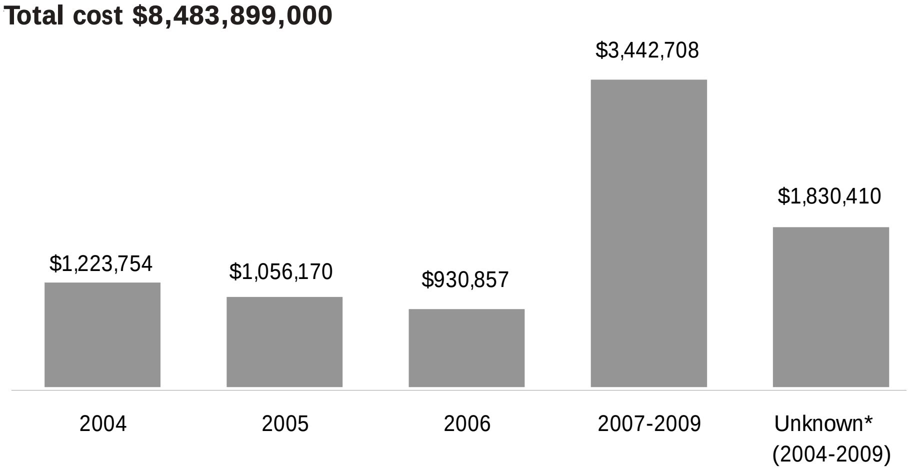
Despite rising construction and maintenance costs, cities maintained consistent administrative and projects cost.



So how much funding is needed?

Washington state law requires cities to plan for their transportation needs and communicate how much they will cost in their Six Year Transportation Improvement Plans (TIPs). As part of the State of the Cities survey, the following funding needs reflect the cost of projects and programs identified in the 2004-2009 TIPs of 176 out of 281 cities in the state. These cities own and manage 88% of the 16,190 miles of city streets and represent 90% of the state's incorporated population. The data represents 3,538 of the cities' highest priority transportation projects and programs, which is identified at over $8 billion dollars.

City 2004-2009 Transportation Improvement Plans - Total cost $8,483,899,000



* Unknown - cities did not state the project year.

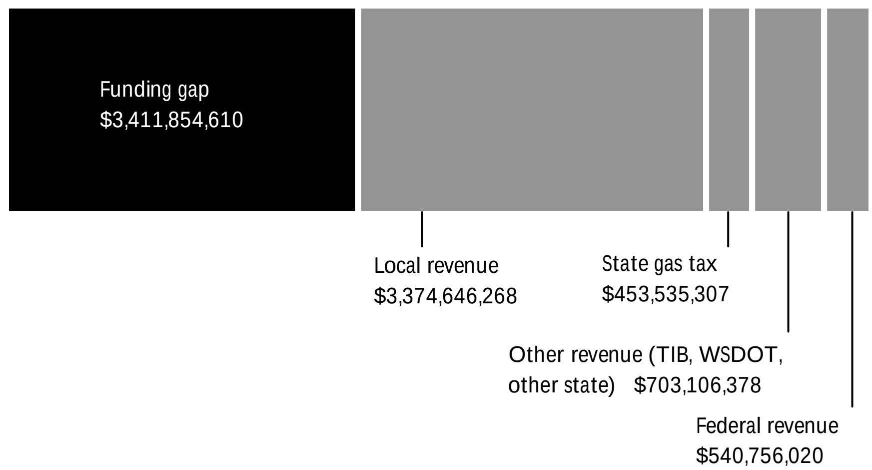
"Our streets are deteriorating and there's a lack of grants and funds to repair and rebuild."

Emily Adams, City Administrator, Colfax

Where will future funding come from?

As it has historically, funding for transportation will continue to be a patchwork of local, state, and federal sources. Funding for projects will be pieced together through a combination of grants, loans, taxes, debt, and fees.

2004-2009 transportation funding will continue to be a patchwork of funding sources.*



**(Source of data: WSDOT Road and Street Reports and Cities 2004-2009 Six Year Transportation Improvement Plans. Projected 2004-2009 state and federal revenue sources are based on the average revenue received by cities for the years 2000, 2001 and 2002. Projected 2004-2009 local revenues are based on the average capital project expenditures by cities for the years 2000, 2001 and 2002.)*

What is the funding shortfall and what contributes to it?

Cities' improvement plans demonstrate a significant funding gap between projects and resources to pay for them.

The $3.4 billion funding gap exists largely due to over-subscription of state and federal grant programs and the lack of known or on-going dedicated funding sources for transportation that can keep up with growth and inflation.

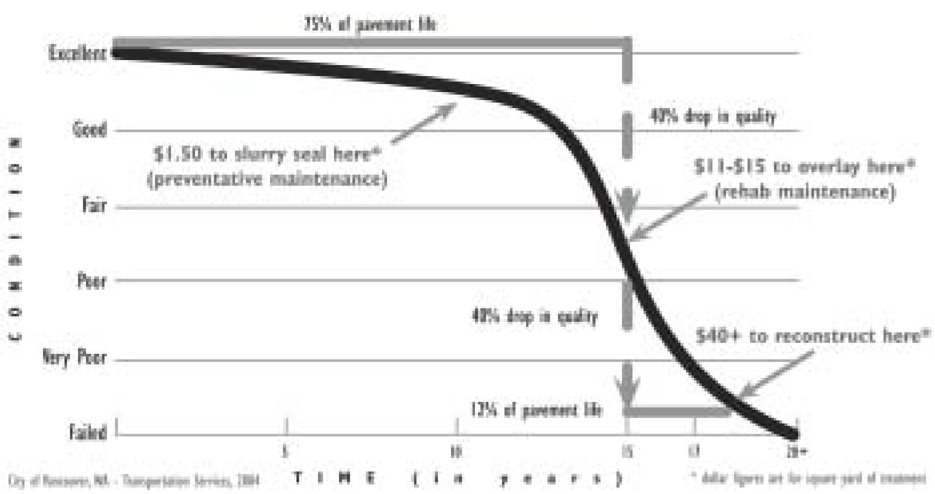
A growing transportation crisis

City officials in Washington now rank their transportation systems their most significant capital investment, as the most in need of improvement.

So what is the current condition of our city streets?

Most cities have under-invested in transportation because of diminishing dedicated transportation resources that are available for maintaining and improving their transportation system. This is creating a large maintenance backlog for most cities. Delay in addressing this existing backlog of needs results in greater life cycle costs due to inflation and accelerated pavement and sub-base deterioration. This spiraling increase in cost is detrimental to city streets, especially because road revenues grow at a rate below inflation. The shortfall, therefore, will increase rapidly if the work is delayed as is illustrated in the figure below.

Pavement Life Curve — As repairs are delayed costs go up and roads decay



As a result of companion legislation to the increased transportation funding package (nickel gas tax for state highways) the Legislature passed the transportation efficiencies bill in April 2003. This bill established planning and efficiency goals for the state and local transportation network, with a requirement for cities to report pavement condition data for their arterial streets beginning with the 2003-2005 biennium. In addition to the arterial network, cities also manage and own the collector network, and local access (residential) network.

Although AWC is reporting this information as part of the State of the Cities Survey, it only represents the pavement condition of approximately 72% of cities arterial streets which represents only 27% of the 16,190 miles of city streets. These arterials do carry most of the cities general and freight traffic, however it is only a snapshot of the cities overall transportation system. It does not include the condition of our bridges, sidewalks, traffic signals, streets, and all the other utilities and street furniture and landscaping the cities maintain.

The arterial network

The combined principal and minor arterial network information for each city is shown in the table below.

Arterial data reported by each city

City	Centerline Miles	Lane Miles	Ave. Rating Score
Redmond	31.86	102.17	91
Kennewick	50.32	148.26	90
Mount Vernon	19.40	47.81	89
Spokane Valley	91.99	296.38	87
Bellevue	70.52	243.29	86
Everett	62.55	230.73	84
Federal Way	31.67	108.58	83
Kent	25.53	100.82	83
SeaTac	18.30	48.15	83
Sammamish	18.43	38.85	82
Tumwater	16.76	33.52	80
Pasco	38.95	118.25	78
Puyallup	27.05	87.08	78
Renton	41.88	150.47	77
Walla Walla	46.37	105.45	77
Yakima	60.53	205.56	77
Spokane	105.33	386.82	75
Bellingham	72.32	184.60	74
Auburn	49.81	150.04	72
Vancouver	81.15	239.55	70
Seattle	341.13	992.63	69
Olympia	66.54	210.50	68
Friday Harbor	5.39	10.78	67
Lacey	42.97	133.29	67
Kirkland	29.97	77.02	64
Ellensburg	18.34	40.56	58
Tacoma	133.56	465.03	56
Totals	**1,598.61**	**4,956.17**	**73**

The data above represents arterial information reported by 27 of our 281 cities. The range of average rating scores within the various cities was fairly large and ranged from a low of 56 in Tacoma to a high of 91 in Redmond with the overall average at the mid-point of the range at 73, which is on the edge between preservation and rehabilitation of the arterial street network.

Source: Report data provided by WSDOT Local Program Office

Condition groups

Pavement ratings are defined as condition groups that range from failed to excellent. The following pavement rating condition groups show the distribution of the arterial lane mileage within the various condition groupings. The distribution shows that 15.8% of the arterial lane mileage falls within the failed to poor category and that 66.5% of the lane mileage falls within the good to excellent categories. The remaining 17.7% falls into the fair category. An average score in the mid 80's is generally considered the optimal management level of the street network. This is because it is less expensive to maintain good streets versus reconstruct failed streets.

Distribution of arterials within the pavement condition rating groups.

Condition group	Centerline miles	Lane miles	Average rating score	Percentage
Failed 0-20	53.33	161.40	11	3.3%
Poor 21-48	207.24	619.88	37	12.5%
Fair 49-67	284.91	874.87	59	17.7%
Good 68-88	499.69	1,552.23	79	31.3%
Excellent 89-100	552.02	1,743.93	97	35.2%

These rating scores can drop quickly if annual maintenance and preservation is reduced.

Surface types

The following table shows the distribution of the pavement surface types within the arterial network. As would be expected, the majority of the lane mileage is comprised of asphalt concrete pavement at 72.4%. Asphalt over portland cement concrete makes up the second largest surface type at just under 17%. This is followed by portland cement concrete at 8.8% and bituminous surface treatment at 2.1%. Tacoma has 0.23 arterial lane miles of ornamental paving brick in new condition. Bituminous surface treatment and asphalt over portland cement concrete are the two surface types with the lowest average rating scores of 61 and 63 respectively.

Arterial lane mileage by surface type.

Pavement type	Centerline miles	Lane miles	Average rating score	Percentage
Paving Brick	0.08	0.23	100	0.0%
Bituminous Surface Treat	44.76	106.15	61	2.1%
Portland Cement Conc	162.74	437.53	77	8.8%
Asphalt Over Concrete	250.91	826.43	63	16.7%
Asphalt Concrete Pavt	1,140.13	3,585.83	74	72.4%

Source: Report data provided by WSDOT Local Program Office

"Cuts in our streets maintenance budget won't show for several years until streets fail."

Bob Jean, City Manager, University Place

16% of our city arterials are now in poor or failed condition.

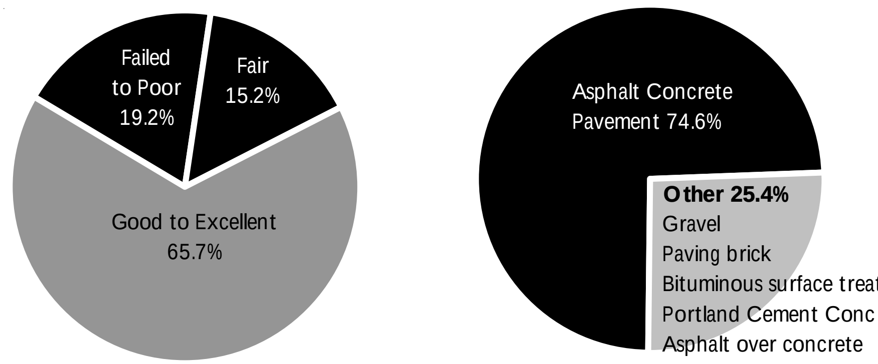
"We're unable to properly maintain streets with the loss of support."

Otto Jensen, Mayor, Coulee City

The collector and local network

Of the 27 cities reporting arterial data; some also supplied all or part of their collector and local street information as well. The following charts summarize the collector street data and local street data reported by each city.

Virtually all streets are asphalt. 34% of all streets are in fair to failed condition.



Source: Report data provided by WSDOT Local Program Office

Every city is affected, regardless of size or location

In addition to the increasing backlog of transportation maintenance needs, cities are also experiencing several other transportation challenges throughout our state:

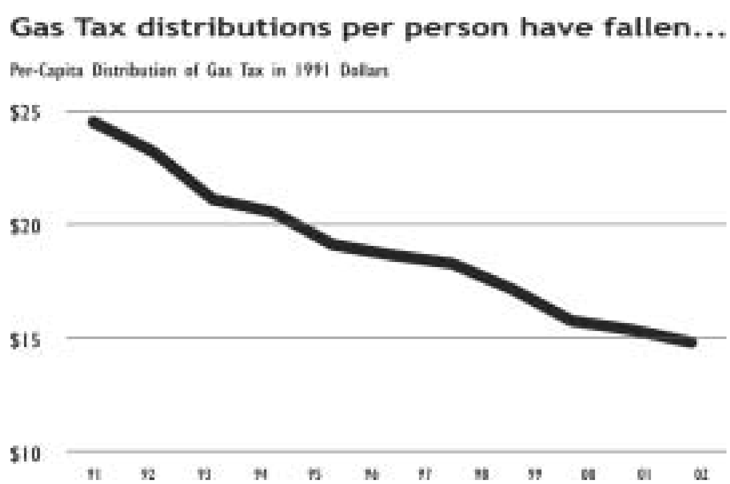
- Streets in newly incorporated and annexed cities need major investments to meet urban standards.
- Larger economic centers need major improvements for congestion relief, freight mobility, and earthquake protection.
- Many intermediate and smaller cities serve as a through corridor for commuting workers, resulting in extraordinary congestion.
- Small rural communities are unable to fund the most basic resurfacing projects and cannot afford even modest improvements to their streets, without state assistance.
- Eastern Washington cities face freeze/thaw cycles that accelerate street deterioration.

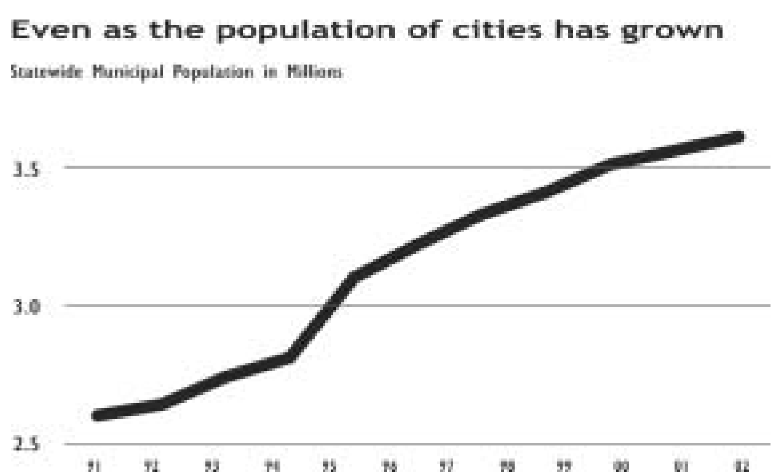
The transportation crisis has been growing over the last decade to where now, most cities see transportation, traffic congestion in particular, as one the top three issues for their city.

How did we get here?

Some of the issues that have contributed are:

- Drastic transportation funding cuts from statewide initiatives, with city losses projected at $420 million by 2007.
- Discontinuation of the Small City Paving Program; this program provided a modest $9 million over two biennium and funded 157 cities and repaired 160 miles of streets.
- Transportation Improvement Board revenues are limited – only $1 was granted for every $8 requested.
- Loss of the street utility fee, the vehicle-licensing fee and the absence of dedicated freight mobility funds.
- An un-funded state mandate requiring larger cities to assume additional responsibilities for state highways, in addition to their own streets.
- A 40% decrease in inflation adjusted per capita state gas tax distributions over the past 12 years.





"If the arterials connecting the highways with surface streets are not complete, if the intersections aren't done, if the trucks can't get to the distribution centers and back to the highways, then all our gains can be lost."

Peter Lewis, Mayor, Auburn

The solutions

To solve these problems Washington cities need an injection of direct state dollars and new local funding options. Nine out of ten cities think state funding for infrastructure would help them, in particular an increase in the state gas tax.

Actions should include:

- At least 5 cents of new gas tax distributions.
- Future gas tax distributions that ensure a fairer return to cities, which handle a disproportionate amount of the state's employment and commuter traffic.
- A fund to provide pavement assistance to Washington's smaller cities. Currently it would take decades for these smaller cities to fund a major transportation project.
- Increased funding for the Transportation Improvement Board, a key city transportation partner.
- Ongoing funding for freight mobility - critical to keeping our state competitive in the global economy.
- Reinstating the Corridor Program to assist with multi-jurisdictional corridor needs.

Additionally, cities need new local transportation funding options to meet urgent and growing needs. These could include:

- Street utility authority; three out of four cities think a street utility would help them.
- Re-enactment of the $15 vehicle license fee.
- Local option gas tax for cities.
- Other locally implemented options, including vehicle miles traveled charge, weight-based fees, etc.

CHAPTER 5

Falling Behind on the Basics

Falling Behind on the Basics

Washington cities are finding it more and more difficult just to fund the basic infrastructure required to keep our local communities healthy. Unfunded federal and state mandates, competing demands on city general fund dollars and increasing competition among jurisdictions for limited state and federal dollars have meant that Washington's cities are not keeping pace with needed infrastructure improvements.

As infrastructure ages, local leaders find themselves grappling with the need for major capital improvements without adequate funding to address them.

The infrastructure necessary to sustain a city is diverse, and includes systems such as domestic water, sanitary sewer, storm sewer, solid waste and recycling, emergency and other public safety facilities, cultural and historic resources, telecommunications and energy systems. This section focuses on the need for timely investment in water, sewer and storm water infrastructure.

"Rates don't cover needed improvements in non-transportation infrastructure improvements anymore."

Kristin Banfield, Asst. City Administrator, Arlington

How is infrastructure funded

Given the range and scope of Washington's cities, it is important to note that infrastructure needs and funding mechanisms vary significantly by type of infrastructure and by jurisdiction – "one size does not fit all." Different jurisdictions face different challenges, and have different tools at their disposal to address their needs.

What all jurisdictions have in common is a very complex challenge in determining how to fund their infrastructure needs. Each agency must piece together a workable capital improvement plan, given a mix of funding options and tools, legal, political and administrative realities, shifting regulatory mandates, and competing priorities and community needs.

Cities with utilities, water, and sewer rely on user rates, hookup fees or system development charges as the primary funding source for infrastructure improvements (both as a source for reserves and as a debt service source). Jurisdictions vary in their use of this source based on economic make-up of their citizenry. Infrastructure projects in cities are generally financed using dedicated funds, and to a lesser extent, general fund sources.

A city's most reliable source of capital funding is its own capital improvement budget, in which general fund revenues can be used to augment dedicated capital funding sources. The revenues are within the direct control of cities and are generally predictable, but there is often fierce competition among the jurisdiction's many competing priorities. In most communities, the needs for capital funding far exceed expected resources. Thus, one challenge for funding infrastructure using general funds is for the city to consider a project's priority within the city's overall array of needs, including both general government and infrastructure needs.

Cities have developed multiple alternatives to financing storm water projects, an area

> "We are not able to fund water, sewer & storm water infrastructure improvements and we've raised these utility rates as high as we can."
>
> Julie Anderson, Councilmember, Tacoma

that has represented an increasing infrastructure need in recent years. Some jurisdictions have established a storm water or surface water utility to finance an enterprise fund through user fees, and use the utility and (sometimes) general fund sources to fund projects. These utilities perform long term drainage basin planning. Since many of these utilities are relatively new, some communities have faced challenges identifying adequate funding sources for drainage improvements.

Those jurisdictions that do not have a specific fund structure to deal with storm water or surface drainage do so using transportation funds in conjunction with transportation–related projects on a case-by-case basis. An illustration of this would be a road program with projects for the repair of a stream bank, re-stabilization of hillsides, surface and subsurface drainage, and cleaning drains on bridges.

State and federal funding for infrastructure projects generally comes from loans and grants; however, cities find state and federal grant funding increasingly more difficult to access. Water, sewer, and storm water loan and grant sources are generally less available than transportation funding sources.

Cities are increasingly aware of grant programs, and are more aggressive in applying. Many observe that the matching requirement is expanding, requiring more creativity (public-private partnerships and regional coordination) to apply and qualify for grants. This further supports the contention that the grant environment is more competitive than ever.

As an example, the Public Works Trust Fund (PWTF) received 91 applications from cities for the 2004 construction cycle requesting over $292 million. Only 47 projects were approved, totaling $154 million. In addition, increasing shortfalls in funding transportation projects has placed greater demand on PWTF loans – a source that has not traditionally been used for funding transportation projects. Of the 47 projects that were approved in 2004, 22 projects (47%) were for roads and bridges.

The following tables summarize the sources of local, state and federal infrastructure funding:

Local

General fund revenues	Bond & debt financing	Dedicated funding resources
- Property taxes	- General obligation bonds	- Real Estate Excise Tax
- Retail sales and use taxes	- Revenue bonds	
- State-shared revenues	- Other bonds (63-20 financing)	
	- Other federal/local debt – Section 108 Loan Guarantee Program	

State

Sewer	Storm Water	Drinking Water
- PWTF[1]	- PWTF	- PWTF
- Community Block Grants	- Community Block Grants	- SRF[2]
- Centennial Clean Water Fund	- Centennial Clean Water Fund	- Community Block Grants
- SRF	- SRF	

Federal

Sewer	Storm Water	Drinking Water
- USDA[3]	- FEMA[4]	- HUD[5]
		- USDA

An agency dedicated to help Washington communities identify and obtain resources they need to develop, improve and maintain public works programs is the Infrastructure Assistance Coordinating Council (IACC). Their website (www.infrafunding.wa.gov) allows the user to find alternative sources of financing for various types of infrastructure projects. Using expertise provided by the Transportation Improvement Board (TIB) and the Public Works Board (PWB), IACC has cataloged over 250 programs that in some way assist local governments find the best financing for critical public works projects.

The needs are significant

In 1998, the Washington State Legislature authorized the Washington Local Government Infrastructure Study. This legislation directed the Public Works Board (PWB), in consultation with the Washington State Department of Community, Trade and Economic Development (CTED), to contract for a local government infrastructure needs assessment. A consultant team retained to perform this study worked in partnership with the PWB, CTED, the Legislative Evaluation and Accountability Program (LEAP), and two committees, comprised of governmental, business, and environmental leaders.

Infrastructure categories covered by the study included:

- Roads
- Bridges
- Domestic water systems
- Sanitary sewer systems
- Storm water systems

Local government study participants included the then 275 cities, 39 counties, 152 special purpose water and sewer districts, and 19 PUDs, for a total of 485 jurisdictions.

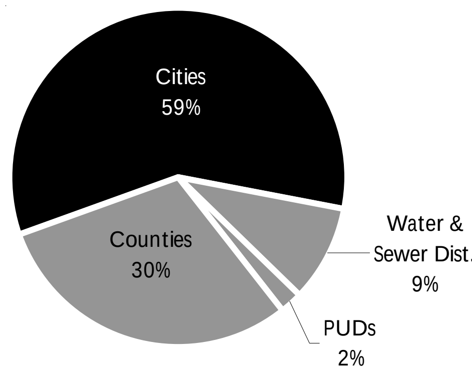
A total funding need of $4.07 billion in 1998 dollars was reported for domestic water, sanitary sewer, and storm water by 324 local jurisdictions for the period 1998 through 2003. The majority of this need (59% or $2.39 billion) was attributed to cities.

The amount of infrastructure funding needed from 1998-2003

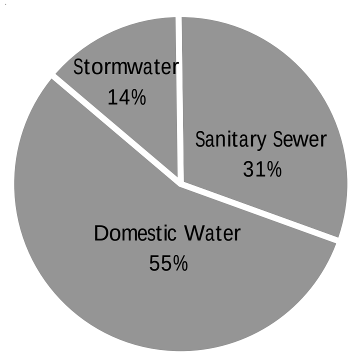
	Domestic Water	Sanitary Sewer	Storm Water	Total Needs	% Total Need
City	$1.33 billion	$0.73 billion	$.33 billion	$2.39 billion	59%
County	$.02 billion	$0.96 billion	$.24 billion	$1.22 billion	30%
PUD	$.08 billion	$0.01 billion		$0.09 billion	2%
W/S Dist.	$.25 billion	$.12 billion		$.37 billion	9%
Total	$1.68 billion	$1.82 billion	$.57 billion	$4.07 billion	

As part of its work to help local governments identify potential funding sources, the IACC will bring its newest data system on-line by early 2005. The database identifies

Infrastructure Needs by Jurisdiction: 1998-2003



Total Funding Needs by Infrastructure Category (Cities Only): 1998-2003



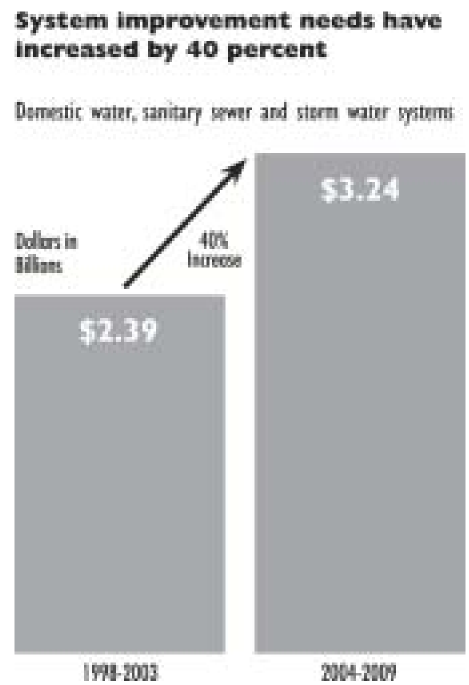
the number and type of infrastructure projects each jurisdiction plans to undertake for the next six years (from 2004 – 2010). It also identifies the cost of projects and from where the funds are expected to come.

The infrastructure systems included in this database are:

- Domestic water
- Sanitary sewer
- Storm sewer
- Solid waste and recycling
- Adult criminal detention
- Juvenile criminal detention
- Emergency and other public safety
- Public buildings and facilities
- Cultural recreational and historical
- Telecommunication
- Health and medical
- Energy facilities.

This database will give legislators and other policy makers instant access to data that may influence whether or not a critical financing program is funded or not or at what level. It will replace the periodic surveys and studies that cost millions of dollars every five or so years and help cities and other local governments make their case for additional assistance from federal and state governments.

Data collected to date suggests that city needs for domestic water, sanitary sewer and storm water will increase by 40%, to $3.24 billion, for the 2004-2009 period, further widening the gap between city resources and needs.



Total funding needs by infrastructure category (cities only) 2004 - 2009

	Domestic Water	Sanitary Water	Storm Water	Total Needs
Funding needs reported	$.75 billion	$.72 billion	$.20 billion	$1.67 billion
% of population reporting represented by cities	54%	52%	43%	
Estimated*	$1.39 billion	$1.39 billion	$.46 billion	$3.24 billion

**Needs were extrapolated for all cities, based upon the population of the reporting jurisdictions.*

State and federal mandates increase financial pressures on cities

As previously mentioned, standards for water, sewer and storm water systems are based on community priorities and federal and state mandates such as the Clean Water Act. In most cities, utility rates are the primary means of paying for infrastructure such as water and sewer.

However in some cases, rates cannot realistically cover the costs of federal and state mandates. This is particularly true in smaller cities where lower incomes, stagnant economic growth, unemployment and a limited population make rate increases simply unaffordable. Users cannot afford to pay the higher rates. In these cities, elected officials must find new funding sources and/or divert money from other services in order to upgrade facilities.

While cities support implementation of regulations such as the Federal Clean Water Act, there continue to be concerns about how a federal mandate with national standards is implemented in cities of various sizes, locations, and fiscal capacities.

> “We don’t have the money to do what the state wants. So what does the state do? They say ‘Oh, you don’t have the money? Okay, we’ll fine you until you do.’ ”
>
> Michael Blake, Mayor, Okanogan

In one case study, Vader (population 610) faces two sanitary sewer improvement projects to comply with state and federal mandates: a wastewater treatment plant and biosolids removal project (est. $4.6 M) and new in-street sewers (est. $677K). Even with a USDA Rural Development loan, a Washington State Department of Ecology (DOE) Loan, a Public Works Trust Fund (PWTF) loan, and Community Development Block Grants (CDBG), the city would need to raise their current monthly rates from $27.50/mo to between $74.10 and $80.10 to pay the remaining costs, an increase of 170% to 190%.

Other examples can be found across the state. For instance, Warden (population 2,540) is required to install a new wastewater treatment plant estimated at $7.6 million. Although the city received a State Revolving Fund loan of $650,000 for design and engineering, they would need to raise their rates from $28 to $80, an increase of 185%. Warden’s residents, who are primarily low income and renters, cannot support this increase. It should be noted that Warden is making some progress with the help of state grants. This summer they were able to transfer 71 residences from septic to sewer with a $710,000 CDBG.

During the 2002 legislative session, attempts were made by cities, counties and ports to better familiarize members with the issues and costs surrounding implementation of new National Pollutant Discharge Elimination System (NPDES) requirements for storm water discharges. Many cities face imposition of costly new storm water requirements. New standards being considered by Washington’s Department of Ecology (DOE) may exceed minimum standards recommended by the U.S. Environmental Protection Agency, with no involvement or direct authorization by the legislature.

Under the Clean Water Act regulations, local governments in the Puget Sound basin and those subject to the federal NPDES Storm Water Program are required to have storm water management programs. New NPDES rules (Phase II) extend coverage to operators of regulated small municipal separate storm sewer systems (MS4s) serving less than 100,000, and required these facilities to apply for a stormwater permit by March 2003. The state issued (June 25, 2003) final revisions to the Surface Water Quality Standards (Chapter 173-201A WAC).

The updated standards must be approved by the federal Environmental Protection Agency and federal fish agencies before they take effect.

Several of Washington’s larger cities have been faced with litigation from a third party for alleged failure to comply with the Phase II NPDES Permit, even though a permit is not yet available through the Department of Ecology. This costly litigation detracts from staff resources and takes scarce funds away from needed city projects.

Adequate infrastructure is needed to accommodate growth

The population of Washington State is projected to grow by more than 1.7 million people by 2025. The Growth Management Act (GMA) requires local governments in 29 counties to plan for and accommodate their share of that population growth, Each city and county must develop detailed plans outlining how they will provide and fund the infrastructure needed to accommodate growth.

Based on those plans, as outlined above, the needs continue to expand faster than the resources that are available. If cities are to succeed in meeting the requirements of federal and state mandates and to maintain quality of life in their communities that trend must be reversed.

Federal and State Environmental Mandates

- 1971 – State Environmental Policy Act (SEPA)
- 1971 – Shoreline Management Act (SMA)
- 1972 – Clean Water Act (includes wetlands regulations)
- 1973 – Endangered Species Act (ESA)
- 1974 – Safe Drinking Water Act (SDWA)
- 1987 – Clean Water Act Amendments (including National Pollutant Discharge Elimination System (NPDES) Permits)
- 1990 – Growth Management Act (GMA)
- 1990 – NPDES Phase I
- 1995 – Regulatory Reform (ESHB 1724)
- 1996 – SDWA Amendments
- 1998 – ESA: proposed listing for Chinook Salmon in Puget Sound basins
- 1999 – NPDES Phase II
- 2001 – ESA: Final listing of salmon complete

"We are living in a trickle down era – responsibilities trickle down from the feds to the state and from the state to the locals."

Carolyn Powers, Councilmember, Port Orchard

"If you can't provide potable water or stop polluting the lake because you can't afford to fix your water and sewer systems, maybe you've got to go out of business because there's no other alternative. What happens then?"

Jack Collins, Northwest Small Cities Services

How can cities maintain the basics?

Cities need greater flexibility in the use of existing resources and new fiscal tools to address the inadequacy of current revenues. Washington cities must have an adequate infrastructure system to assure the delivery of basic services. Cities need:

- Stable, strong financing is needed to provide a sound infrastructure that will ensure Washington's economic vitality and the health and safety of its citizens.
- State programs could be restructured to provide realistic funding options for cities.
- Smaller cities need better access to grants and loans, especially when they don't have the rate base to meet mandate costs or support loan paybacks.

Endnotes

[1] Public Works Trust Fund Loan
[2] State Revolving Fund Loan
[3] United States Department of Agriculture
[4] Federal Emergency Management Act
[5] Housing & Urban Development

CHAPTER 6

Recommendations for City and State Action

Recommendations for City and State Action

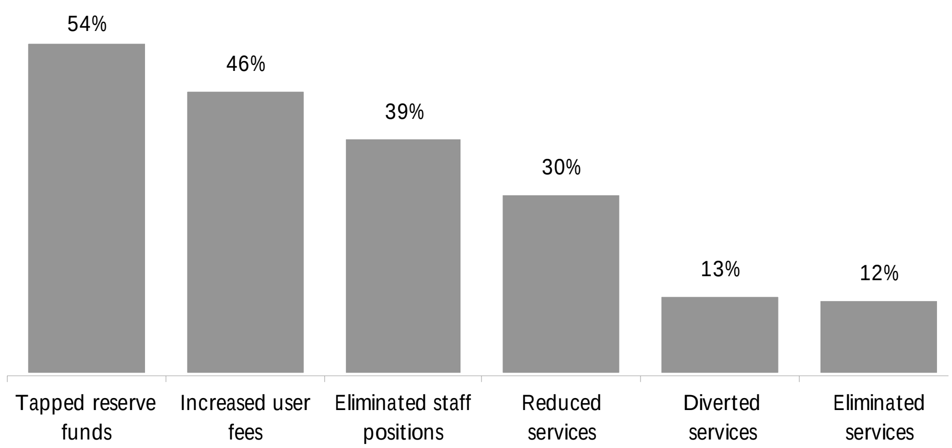
Every city is working to create a productive and comfortable community for all who live, work and visit there. Cities want to work with and serve all their citizens, to bring new and diversified employment to their communities and to make sure their city streets are safe for everyone. If realized, these visions of a stronger future will benefit the entire state.

Faced with this tightening budget vise, city leaders have already worked in a variety of ways to try to sustain the most vital services in the face of dwindling resources.

Many cities tapped reserves to preserve services for the short-term. Others had to impose user fees or local tax increases. A number of cities eliminated staff positions, often in the face of increasing local populations and an increasing demand for services. And many communities either reduced services, diverted services from some populations, or eliminated certain services entirely.

City officials have responded to tax-limiting initiatives in a variety of ways.

- 54% tapped into reserve funds
- 46% increased user fees
- 39% eliminated staff positions
- 30% reduced services
- 13% diverted services
- 12% eliminated certain services entirely



In the face of rising costs and decreasing revenues, cities have taken a serious look at the way they do business, placing an even higher priority on efficient operations.

89% of city managers and mayors responding to the survey identified efficiencies they implemented over the past 5 years. These efficiencies include, but are not limited to:

- Equipment sharing between departments.
- Partnerships with other governments and/or private entities.
- Reviewing contracts - in-house or outsourced, depending on fiscal efficiency.
- Increased use of volunteers.
- Improved technology to reduce staffing needs.
- Reduced staff and services to only essential functions.
- Reorganized planning and permitting functions.

"The State of Washington has local governments that are proud of their heritage and services they provide to citizens."

John LaRocque, Executive Director, Public Works Board

"We can't cut our way out of this problem...We must maintain essential services."

Scott Staples, City Manager, Toppenish

"We clearly want input about priorities for spending money and its an opportunity to educate the public about the challenges of ever-increasing demands."

TJ Johnson, Councilmember, Olympia

Cities can't cut deeper without hurting their economic well-being and the quality of life of their citizens. Cost-cutting and user fees can only take our communities so far – unless we give our cities the tools they need, the result will be a slow but steady erosion in our economic competitiveness as a state and in our overall quality of life.

Based on a thorough analysis of Washington cities' fiscal condition, the following city and state recommendations offer clear, common-sense solutions to allow cities to continue to provide badly-needed services for their citizens and create the economic opportunities necessary for our state to thrive.

Recommended city actions

1. Work with citizens to prioritize services.

More and more cities are asking citizens to help prioritize critical services – the elements that are essential for their city.

In a regional survey, 85% of the city officials who recently raised taxes said they worked with their citizens to prioritize services, and determine appropriate tax increases when necessary to preserve prioritized services.

The City of Toppenish was faced with a potential budget deficit of more than 15% and dwindling state backfill in the wake of the loss of its MVET distribution. The city chose to use reserves to maintain services and embarked on a proactive four-month community outreach process to prioritize services and budget options.

By going directly to the people, the council gained public support and understanding for revenue increases – an action that surely would have been greeted with public opposition had the council made this decision on its own. Instead of opposition to the eventual choice of higher utility taxes to maintain services, Toppenish had municipal supporters throughout the community, equipped with a basic understanding of the budget situation and prepared to enlighten their fellow citizens.

These are important steps that all cities can take to both improve relations with citizens and help them understand what it takes to provide the services they need and want.

2. Invest in economic development.

The state's economy depends on healthy economic activity in our cities. Cities throughout the state should be essential partners in helping to improve the state's economy. Cities have a shared responsibility to work together to devote time and resources toward the development of economic opportunities.

The economy is changing, however, presenting a serious challenge for many Washington communities. Currently, three sectors dominate city economies: retail, manufacturing, and health care and social services. Other industries, which were once mainstays of the state's economy are continuing to decline. Agriculture is diminishing, and manufacturing, which still represents a sizable employer for most cities and produces the second highest wages of all sectors, is declining over all. Meanwhile, professional and technical services are expanding.

Cities, together with state and regional partners, must find ways to adapt to this changing state and nationwide economy.

"We've formed a county economic development alliance and we're partnering with a private developer - we're trying to bring the economy back."

Dale Sparber, Mayor, Omak

Characteristics of local economies – Diverse cities with diverse challenges

Tourist/Light Industrial Hub

- Almost equal split between tourist-oriented cities and cities dominated by an industrial employer.
- Most of the citizens employed inside their city.
- Overall, most felt economic development had led to a minor increase in their budget conditions.

High Income Residential

- Creating economic development opportunities is a challenge due to its highly residential nature.

Regional and Major Commercial Centers

- Regional centers for economic activities.
- Some of these cities house large higher education institutions and this becomes a major employer. Commercial activity in both clusters is high.
- Metro versus non-metro areas may attract different kinds of businesses.

Rural economies: Rural Commercial Centers, Moderate Commercial, Small Residential, Rural Communities

- Special challenges in rural areas due to reduced access to resources such as ports and higher education facilities.
- Difficulties attracting business and retaining a skilled labor force.
- Rural character can be of value to many businesses and workers, but economic development plans will look significantly different in these economies.

Small economies close to urban cores: Urban Outskirts, Small Commercial Centers, Medium Retail Hubs

- Challenges due to building and retaining a skilled workforce and other issues but located closer to infrastructure such as ports and major transportation corridors.
- Those cities that are more residential in nature, face problems in expanding sales tax base.

Professional economies: Residential, Mixed Resources, Central Cities

- High percentage of professional sector jobs.
- Primarily larger metro-area cities with good access to infrastructure and an ability to attract higher skilled workers.
- Relatively high rates of higher education degree completion.

"As financial partners in economic development, cities and counties can invest public funds in a limited, but meaningful manner to promote industrial and commercial growth. This investment may include infrastructure improvements and/or increasing the number of industrial and commercial properties. Local government investment in the state of Washington is restricted by the state constitution under what is known as the lending of credit clause."

Excerpted from Yakima County Comprehensive Plan, "Role of Government in Economic Development."

Businesses consider a wide variety of variables when identifying locations for relocation or expansion. While the overall cost of doing business is a factor in the decision making process, more qualitative reasons are also important. Quality of life, which can be measured through number of parks, educational opportunities, jobs for employee spouses, cultural amenities, affordable housing and access to transportation alternatives, is a large component to business site selection.

The Metropolitan New Economy Index 1 indicates that cities will have the most success if they undertake the following strategies for economic development:

- Understand the region's economic function in the global economy.
- Work with local partners, including the education community, and the state to create a skilled local workforce.
- Focus on investing in an infrastructure for innovation.
- Create a high quality of life for local residents.
- Foster an innovative business climate.
- Digitize government.
- Take regional governance and partnerships seriously.

These strategies, however, require the availability of significant local resources.

Cities are currently divided about their ability to continue providing services that promote economic development in the next five years. According to the survey results, city officials said they were:

- Somewhat optimistic – 35%
- Somewhat pessimistic – 38%
- Very pessimistic – 20%

Given the financial vise many cities are in, they cannot be the effective partners in economic development that they should be without help from the state. Recommendations for state solutions are suggested below.

Recommended state actions

Investing in the health of our cities today will ensure that our state enjoys strong economic growth in the decades to come.

These proposals are key to ensuring Washington's cities will have the ability to meet rising costs, provide high quality services for residents and continue to serve as the state's economic driver.

1. Allocate state funding to struggling cities.

Washington's cities have shown that they know how to make the tough choices and squeeze the maximum level of service out of their limited resources. But cost-cutting and user fees can only take our communities so far.

The key is to provide resources to the cities that need them and create a greater level of flexibility in their use so that the officials closest to the community – and most accountable to the voters – can make the decisions about where to invest those dollars to ensure the right mix of services and the right level of investment in future economic opportunity.

2. Develop a comprehensive transportation package.

Nine out of ten Washington cities believe that increased state funding for transportation is critical to address transportation backlogs and growing needs. To solve these problems, Washington cities need an infusion of direct state financial assistance and new local transportation funding options.

City streets provide infrastructure critical to the economic success of the entire state. We can't afford to let our local transportation needs continue to go unmet.

3. Provide greater flexibility in the use of existing resources and develop new fiscal tools to address the inadequacy of current revenues.

Washington cities must have an adequate infrastructure system to assure the delivery of basic services. Stable, strong financing is needed to provide a sound infrastructure that will ensure Washington's economic vitality and the health and safety of its citizens. State programs should be restructured to provide more appropriate funding options for cities. Smaller cities need better access to grants and loans, especially when they don't have the rate base to meet mandated costs or support loan paybacks.

4. Invest in economic development.

Every city would like to have a broader economic base and more family-wage jobs, but most cities are so consumed by the challenges of maintaining vital services in the face of declining revenues that they are unable to devote much time, energy or resources to long-term economic development.

Budgetary pressures, especially those caused by crumbling infrastructure, are hampering cities' ability to invest in economic development. State leadership is needed to help cities turn the corner, and it is particularly important given that economic development is a regional problem.

Economic development is a complex interaction of factors involving many partners, long timelines and unique expertise. The state can play a critical role by providing cities with additional tools and funding options to help promote economic growth. In addition, the rules about what cities can and cannot do to promote economic development need to be clarified.

During the economic boom of the 1990s, the state focused its economic development tools at rural communities because they were not experiencing as much growth, on average, as the urban areas. With the economic downturn starting around 1999, particularly in aerospace and the dot-com sector, urban areas are now also hard-hit.

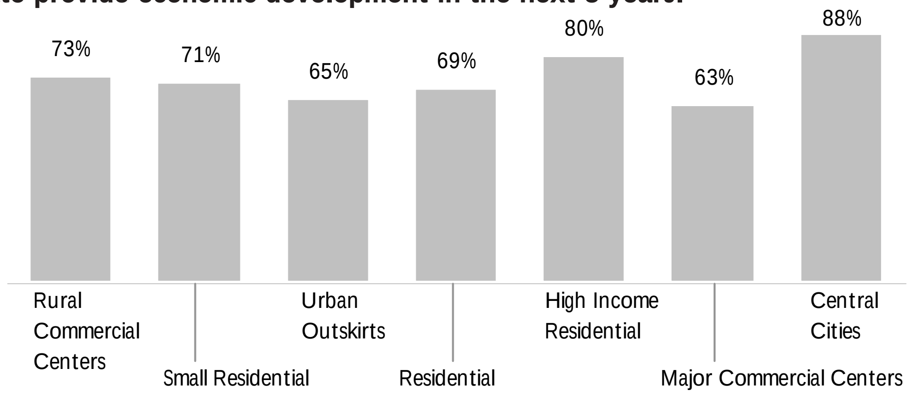
The state's economic development programs need to recognize this new reality, and provide an expanded effort to assist urban as well as rural areas to ensure the overall economic health of our state.

"If we truly intend to have Washington remain a leader in innovation and business, all of Washington must have access to the tools needed to make that dream a reality."

Rod Fleck, City Attorney/Planner, Forks

> "We need to work in partnership with other governments, with private businesses, with education, with everyone. We need to ask 'what can we do to make this work better for all of us?' 'What are the barriers?' We must find a way to get through this so we can better work in partnership to meet the needs of our citizenry."
>
> AWC President Mary Place, Councilmember, Yakima

City officials from these group of cities are pessimistic about their ability to provide economic development in the next 5 years.



Every city needs to transition to the new global and information-based economy, but many communities have limited time, resources and expertise, and are unsure how to start. Given the nature of the problem, each city shouldn't have to reinvent the wheel on its own. State government has the opportunity to step up and provide tools that can jump-start every city's efforts to move toward an information-based economic model.

Conclusion

Taken together, these changes will help build economically competitive cities, and a good quality of life for all our state's residents. The State of the Cities report is a starting point for these changes. AWC hopes it begins a discussion focused on evolving roles and responsibilities, and leads to a strong state and city partnership.

While the State of the Cities presents a sobering picture of current and anticipated conditions and of cities in decline, it is also a springboard for a productive future. With the right tools, and by working together, cities can continue to provide badly needed services for citizens and create the economic opportunities necessary for our state to thrive.

Investing in the health of our cities today will ensure that our state enjoys strong economic growth in the decades to come.

Endnotes

1 Progressive Policy Institute, "The New Metropolitan New Economy Index," (2002). Retrieved from www.neweconomyindex.org/metro.

Appendix

Appendix A: City clusters data

All of Washington's 281 cities were initially divided into two groups of cities – those located in U.S. Census-defined metro areas and non-metro areas.

The U.S. Census Bureau defines metropolitan statistical areas (MSA) as follows: A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core. Qualification of an MSA requires the presence of a city with 50,000 or more inhabitants, or the presence of an Urbanized Area (UA) and a total population of at least 100,000 (75,000 in New England). The county or counties containing the largest city and surrounding densely settled territory are central counties of the MSA. Additional outlying counties qualify to be included in the MSA by meeting certain other criteria of metropolitan character, such as a specified minimum population density or percentage of the population that is urban.

A hierarchical cluster analysis was then performed on each group, using the Statistical Package for Social Sciences software.

A hierarchical cluster analysis is a statistical operation that creates groups based on commonalities identified among a given set of variables for each entity. In this analysis, we used the following variables:

- Population size (2000 Census)
- Median household income (2000 Census)
- Assessed property value, per capita (Department of Revenue, 2002)
- Retail sales tax revenue, per capita (State Auditor's Office, 2002)
- Population growth, 1990 – 2000 (1990 and 2000 Census)

Together, these variables approximate the fiscal base for each group of cities. Survey results and other data have been sorted into these clusters, identifying common challenges and the kinds of resources and solutions that will help each city meet the needs of its citizens.

Appendix A1 lists all of Washington cities as they have been grouped into these clusters. Please note that these are not perfect matches; Washington's cities are far too diverse, and the data used to group them has limited powers to group them into perfectly similar categories. Outliers in each group do exist. This view of Washington cities should be used as an analytical tool only.

Appendix A1: Washington cities by cluster

(as designated for this study only)

Regional Centers

- Anacortes
- Centralia
- Ellensburg
- Longview
- Moses Lake
- Mount Vernon
- Port Angeles
- Pullman
- Walla Walla
- Wenatchee

Rural Commercial Centers

- Aberdeen
- Brewster
- Chehalis
- Colville
- Ephrata
- Goldendale
- Grand Coulee
- Kelso
- Metaline Falls
- Okanogan
- Omak
- Oroville
- Othello
- Quincy
- Ritzville
- Shelton
- Tonasket
- Twisp

Tourism/Light Industrial Hubs

- Burlington
- Cathlamet
- Chelan
- Cle Elum
- East Wenatchee
- Friday Harbor
- Kalama
- La Conner
- Leavenworth
- Long Beach
- Morton
- Ocean Shores
- Port Townsend
- Sequim
- Stevenson
- Winthrop
- Woodland

Moderate Commercial Cities

- Bingen
- Chewelah
- Colfax
- Conconully
- Concrete
- Coulee City
- Elma
- Forks
- Ilwaco
- Montesano
- Mossyrock
- Newport
- Pateros
- Raymond
- Republic
- Springdale
- St. John
- Toledo
- Uniontown
- Westport

Small Residential Communities

- Albion
- Cashmere
- Castle Rock
- Colton
- Cosmopolis
- Coulee Dam
- Davenport
- Electric City
- Entiat
- Krupp
- Lind
- Napavine
- North Bonneville
- Prescott
- Reardan
- Rock Island
- Roslyn
- Sedro-Woolley
- South Cle Elum
- White Salmon

Rural Communities

- Almira
- Asotin
- Bridgeport
- Clarkston
- College Place
- Creston
- Cusick
- Dayton
- Elmer City
- Endicott
- Farmington
- Garfield
- George
- Hamilton
- Harrington
- Hartline
- Hatton
- Hoquiam
- Ione
- Kettle Falls
- Kittitas
- LaCrosse
- Lamont
- Lyman
- Malden
- Mansfield
- Marcus
- Mattawa
- McCleary
- Metaline
- Nespelem
- Northport
- Oakesdale
- Oakville
- Odessa
- Palouse
- Pe Ell
- Pomeroy
- Riverside
- Rosalia
- Royal City
- Soap Lake
- South Bend
- Sprague
- Starbuck
- Tekoa
- Vader
- Waitsburg
- Warden
- Washtucna
- Waterville
- Wilbur
- Wilson Creek
- Winlock

Urban Outskirts

- Airway Heights
- Algona
- Battle Ground
- Benton City
- Buckley
- Bucoda
- Carbonado
- Cheney
- Connell
- Coupeville
- Darrington
- Deer Park
- Eatonville
- Everson
- Fairfield
- Ferndale
- Gold Bar
- Grandview
- Granger
- Granite Falls
- Harrah
- Index
- Kahlotus
- Latah
- Lynden
- Mabton
- Medical Lake
- Mesa
- Millwood
- Milton
- Moxee
- Naches
- Nooksack
- Orting
- Pacific
- Prosser
- Rainier
- Ridgefield
- Rockford
- Roy
- Ruston
- Selah
- South Prairie
- Spangle
- Steilacoom
- Sultan
- Tenino
- Tieton
- Toppenish
- Wapato
- Washougal
- Waverly
- Wilkeson
- Yacolt
- Zillah

Residential Communities

- Bainbridge Island
- Black Diamond
- Bonney Lake
- Brier
- Camas
- Carnation
- Covington
- Des Moines
- Duvall
- Edgewood
- Edmonds
- Fircrest
- Kenmore
- La Center
- Lake Forest Park
- Lake Stevens
- Maple Valley
- Marysville
- Mill Creek
- Mountlake Terrace
- Mukilteo
- Newcastle
- Normandy Park
- Sammamish
- Shoreline
- University Place
- West Richland

High Income Residential

- Beaux Arts Village
- Clyde Hill
- Hunts Point
- Medina
- Mercer Island
- Woodway
- Yarrow Point

Mixed Resource Cities

- Arlington
- Bothell
- Issaquah
- Kirkland
- North Bend
- Redmond
- Snoqualmie
- Woodinville

Small Commercial Centers

- Blaine
- DuPont
- Gig Harbor
- Langley
- Liberty Lake
- Port Orchard
- Poulsbo
- Skykomish
- Snohomish
- Stanwood
- Sumas
- Sumner
- Union Gap
- Yelm

Medium Retail Hubs

- Bremerton
- Burien
- Enumclaw
- Kennewick
- Lacey
- Lakewood
- Monroe
- Oak Harbor
- Pasco
- Sunnyside
- Tumwater

Major Commercial Centers

- Auburn
- Federal Way
- Fife
- Kent
- Lynnwood
- Olympia
- Puyallup
- Renton
- Richland
- SeaTac
- Spokane Valley
- Tukwila

Central Cities

- Bellevue
- Bellingham
- Everett
- Seattle
- Spokane
- Tacoma
- Vancouver
- Yakima

Appendix B: Primary survey data summary

SECTION I: TO BE COMPLETED BY CHIEF ADMINISTRATIVE OFFICER

CONTACT INFORMATION

1. Name of your city or town: **For list of participating cities, please see Appendix B1 after quantitative results.**
2. Please provide the contact information for the individual who completed or who can answer questions about this questionnaire. *(Please keep a copy of the completed survey for your files and for your reference should we need to call.)*

   a. Name: ____________________________ b. Title: ______________________

   c. Phone number: (_____) _____________ d. E-Mail: ______________________

CITY SERVICES

3. For items "a"-"r" below, please indicate which services your city provides (directly or by contract) and that you consider to be **mandatory/essential** (**ME** = required by law), **citizen-demanded discretionary** (**CD** = majority of citizens strongly want it to be in place), and/or **required for economic development** (**ED** = businesses strongly desire in order to locate in your city). Check **NP** if a service is not provided by your city.
   Please check all that apply for each item, "a"-"r". (For instance, you might consider street maintenance to be both a mandatory and an economic development service. If so, check *both* ME and ED for item "f".)

	ME		CD		ED		NP	
	Count	**Percent**	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
a. General administration	181	95%	29	15%	26	14%	1	1%
b. Police	171	90%	58	30%	34	18%	10	5%
c. Jail	89	47%	15	8%	4	2%	90	47%
d. Court	118	62%	43	23%	4	2%	46	24%
e. Parks	29	15%	165	86%	58	30%	5	3%
f. Street maintenance and operations	139	73%	93	49%	66	35%	1	1%
g. Public transportation	5	3%	24	13%	10	5%	156	82%
h. Sewer	141	74%	48	25%	51	27%	29	15%
i. Water	145	76%	51	27%	50	26%	21	11%
j. Garbage/recycling	87	46%	69	36%	24	13%	52	27%
k. Tourism	5	3%	28	15%	101	53%	66	35%
l. Recreation/youth/senior services	7	4%	120	63%	30	16%	53	28%
m. Library	20	10%	103	54%	20	10%	156	82%
n. Fire	136	71%	57	30%	39	20%	27	14%
o. EMS	98	51%	63	33%	23	12%	47	25%
p. Human/social services	13	7%	52	27%	7	4%	117	61%
q. Planning/permitting	149	78%	49	26%	59	31%	8	4%
r. Economic development	20	10%	68	36%	117	61%	33	17%

4. Are you generally more optimistic or pessimistic about your city's ability to provide adequate services in each of the following categories in the next five years? *(Check one box for each item, "a"-"c".)*

	Very optimistic		Somewhat optimistic		Somewhat pessimistic		Very pessimistic	
	Count	**Percent**	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
a. Mandatory/essential needs (ME)	50	26%	80	41%	55	28%	10	5%
b. Citizens' service demands (CD)	15	8%	68	35%	79	41%	33	17%
c. Economic development needs (ED)	15	8%	67	35%	73	38%	38	20%

5. What do you think are the two most important trends and changes affecting cities and towns (for better or worse)?
   For additional survey data, see the AWC website, www.awcnet.org.

SPECIFIC LOCAL CONDITIONS

6. For the following conditions ("a" – "cc"), please **(I)** indicate how each has changed in your community over the past five years (since 1999); and **(II)** assess the extent to which each condition is currently a problem for your city, if at all. *(Check a response for each condition for **both** parts I and II.)*

I. Change in condition over past 5 years

	Improved		Worsened		No change	
Code/condition	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
a. Violent crime	48	26%	35	19%	104	56%
b. Drugs/alcohol abuse	30	16%	91	48%	67	36%
c. Homeland security/emergency preparedness	101	54%	19	10%	66	35%
d. Overall economic conditions of community	63	33%	85	45%	41	
e. Unemployment	16	9%	94	50%	78	41%
f. Availability of quality affordable housing	53	28%	67	35%	69	37%
g. Homelessness	9	5%	29	16%	149	80%
h. Vitality of downtown/main street	67	36%	61	32%	60	32%
i. Vitality of neighborhoods	72	39%	13	7%	102	55%
j. Traffic congestion	9	5%	106	57%	72	39%
k. Pedestrian-friendly environment	83	44%	23	12%	81	43%
l. Public transportation/transit service	43	23%	28	15%	115	62%
m. Streets/bridges	50	27%	75	40%	62	33%
n. Sanitary sewer	86	47%	26	14%	72	39%
o. Drinking water systems	100	54%	22	12%	63	34%
p. Stormwater systems	66	35%	23	12%	98	52%
q. Local environmental quality	53	28%	11	6%	122	66%
r. Parks & recreation	101	54%	23	12%	64	34%
s. Library quality/availability	50	27%	17	9%	116	63%
t. Overall sense of "community"	84	46%	31	17%	69	38%
u. Volunteerism/community services	70	38%	44	24%	72	39%
v. City relationships with community groups	89	48%	13	7%	84	45%
w. County relations with your city	58	31%	57	30%	73	39%
x. State relations with your city	37	20%	45	24%	104	56%
y. Federal/state preemption of local authority	7	4%	75	40%	104	56%
z. Impacts of unfunded mandates	8	4%	141	75%	38	20%
aa. Overall city budget condition	25	14%	135	73%	25	14%
bb. Efficiency of municipal service delivery	99	53%	26	14%	61	33%
cc. City property tax base	63	34%	75	40%	48	26%
dd. Sales tax base	57	31%	77	41%	52	28%

II. Current status of condition

Code/Condition	Major problem Count	Major problem Percent	Moderate problem Count	Moderate problem Percent	Minor/no problem Count	Minor/no problem Percent
a. Violent crime	5	3%	69	38%	110	60%
b. Drugs/alcohol abuse	48	26%	104	57%	30	16%
c. Homeland security/emergency preparedness	13	7%	72	40%	95	53%
d. Overall economic conditions of community	68	37%	81	44%	34	19%
e. Unemployment	45	25%	94	51%	44	24%
f. Availability of quality affordable housing	30	16%	80	44%	73	40%
g. Homelessness	5	3%	37	20%	141	77%
h. Vitality of downtown/main street	61	33%	68	37%	54	30%
i. Vitality of neighborhoods	8	4%	67	37%	107	59%
j. Traffic congestion	47	26%	68	38%	66	36%
k. Pedestrian-friendly environment	13	7%	80	44%	90	49%
l. Public transportation/transit service	15	8%	57	32%	108	60%
m. Streets/bridges	58	32%	71	39%	54	30%
n. Sanitary sewer	36	20%	43	24%	102	56%
o. Drinking water systems	20	11%	45	25%	117	64%
p. Stormwater systems	30	16%	68	37%	86	47%
q. Local environmental quality	8	4%	45	25%	130	71%
r. Parks & recreation	13	7%	78	42%	94	51%
s. Library quality/availability	6	3%	44	24%	132	73%
t. Overall sense of “community”	16	9%	67	37%	98	54%
u. Volunteerism/community services	18	10%	64	35%	103	56%
v. City relationships with community groups	4	2%	67	37%	111	61%
w. County relations with your city	32	17%	66	36%	85	46%
x. State relations with your city	27	15%	69	38%	87	48%
y. Federal/state preemption of local authority	27	15%	73	40%	83	45%
z. Impacts of unfunded mandates	101	55%	70	38%	12	7%
aa. Overall city budget condition	103	56%	62	34%	18	10%
bb. Efficiency of municipal service delivery	30	16%	68	37%	85	46%
cc. City property tax base	67	37%	64	35%	50	28%
dd. Sales tax base	81	45%	58	32%	42	23%

For questions 7 through 9, refer to the conditions and letter codes in question 6, "a" – "cc". (*For example, if one response to question 7 is "unemployment," enter "e" in one of the three blank spaces.)*

7. Of the conditions listed in question 6, which three **improved the most** in your community during the **past five years** (since 1999)?

Code/condition	# of times listed	% of responding cities
a. Violent crime	16	9%
b. Drugs/alcohol abuse	7	4%
c. Homeland security/emergency preparedness	28	15%
d. Overall economic conditions of community	17	9%
e. Unemployment	2	1%
f. Availability of quality affordable housing	20	11%
g. Homelessness	0	0%
h. Vitality of downtown/main street	30	17%
i. Vitality of neighborhoods	21	12%
j. Traffic congestion	7	4%
k. Pedestrian-friendly environment	28	15%
l. Public transportation/transit service	8	4%
m. Streets/bridges	28	15%
n. Sanitary sewer	45	25%
o. Drinking water systems	52	29%
p. Stormwater systems	14	8%
q. Local environmental quality	3	2%
r. Parks & recreation	43	24%
s. Library quality/availability	16	9%
t. Overall sense of "community"	22	12%
u. Volunteerism/community services	18	10%
v. City relationships with community groups	25	14%
w. County relations with your city	14	8%
x. State relations with your city	2	1%
y. Federal/state preemption of local authority	0	0%
z. Impacts of unfunded mandates	1	1%
aa. Overall city budget condition	5	3%
bb. Efficiency of municipal service delivery	25	14%
cc. City property tax base	14	8%
dd. Sales tax base	14	8%

8. Of the conditions listed in question 6, which three **deteriorated most** in your community during the **past five years** (since 1999)?

Code/condition	# of times listed	% of responding cities
a. Violent crime	7	4%
b. Drugs/alcohol abuse	38	21%
c. Homeland security/emergency preparedness	3	2%
d. Overall economic conditions of community	22	12%
e. Unemployment	19	10%
f. Availability of quality affordable housing	27	15%
g. Homelessness	1	1%
h. Vitality of downtown/main street	21	11%
i. Vitality of neighborhoods	2	1%
j. Traffic congestion	50	27%
k. Pedestrian-friendly environment	2	1%
l. Public transportation/transit service	6	3%
m. Streets/bridges	27	15%
n. Sanitary sewer	8	4%
o. Drinking water systems	10	5%
p. Stormwater systems	5	3%
q. Local environmental quality	1	1%
r. Parks & recreation	5	3%
s. Library quality/availability	3	2%
t. Overall sense of “community”	5	3%
u. Volunteerism/community services	6	3%
v. City relationships with community groups	3	2%
w. County relations with your city	21	11%
x. State relations with your city	11	6%
y. Federal/state preemption of local authority	10	5%
z. Impacts of unfunded mandates	56	30%
aa. Overall city budget condition	80	43%
bb. Efficiency of municipal service delivery	4	2%
cc. City property tax base	33	18%
dd. Sales tax base	31	17%

9. Of the conditions listed in question 6, which three will be the **most important to address** during the **next five years** (present – 2009)?

Code/condition	# of times listed	% of responding cities
a. Violent crime	8	5%
b. Drugs/alcohol abuse	21	12%
c. Homeland security/emergency preparedness	4	2%
d. Overall economic conditions of community	28	16%
e. Unemployment	14	8%
f. Availability of quality affordable housing	16	9%
g. Homelessness	0	0%
h. Vitality of downtown/main street	38	22%
i. Vitality of neighborhoods	5	3%
j. Traffic congestion	44	26%
k. Pedestrian-friendly environment	3	2%
l. Public transportation/transit service	5	3%
m. Streets/bridges	35	20%
n. Sanitary sewer	20	12%
o. Drinking water systems	20	12%
p. Stormwater systems	11	6%
q. Local environmental quality	1	1%
r. Parks & recreation	4	2%
s. Library quality/availability	1	1%
t. Overall sense of “community”	7	4%
u. Volunteerism/community services	4	2%
v. City relationships with community groups	1	1%
w. County relations with your city	7	4%
x. State relations with your city	3	2%
y. Federal/state preemption of local authority	4	2%
z. Impacts of unfunded mandates	34	18%
aa. Overall city budget condition	95	55%
bb. Efficiency of municipal service delivery	10	5%
cc. City property tax base	34	20%
dd. Sales tax base	48	28%

CITIZEN ATTITUDES/PERCEPTIONS

10. To what degree do you believe citizens in your city trust in government, participate in government, and feel they are getting adequate value for the taxes they pay? *Please check one box in **part I** to reflect citizen attitudes toward government in general and check one box in **part II** to reflect citizen attitudes toward your city in particular. Your response should represent your best assessment of the mood of the citizenry statewide and within your city.*

I) Government in General

	Agree		Somewhat agree		Somewhat disagree		Disagree	
Citizen Attitudes	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
a. Residents of my city trust government in general	2	1%	60	32%	98	53%	26	14%
b. Residents of my city participate in government in general	6	3%	46	25%	80	43%	54	29%
c. Residents of my city sense value for the taxes they pay for government in general	7	4%	44	24%	81	44%	54	29%

II) Your City Government

	Agree		Somewhat agree		Somewhat disagree		Disagree	
Citizen Attitudes	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**	**Count**	**Percent**
a. Residents of my city trust their city government	32	17%	110	60%	35	19%	7	4%
b. Residents of my city participate in city government	26	14%	62	34%	69	38%	27	15%
c. Residents of my city sense value for the taxes they pay for city government	28	15%	84	46%	55	30%	17	9%

11. Do you believe that citizens and state-level public officials are aware of your city's transportation needs (street maintenance, public transit, etc.)?

	Count	Percent
Yes	69	37%
No	101	54%
Don't Know	16	9%

12. Do you believe that citizens and state-level public officials understand your city's transportation *funding* needs?

	Count	Percent
Yes	30	16%
No	140	75%
Don't Know	16	9%

CITY BUDGET INFLUENCES

13. **CHANGE IN ITEMS THAT INFLUENCE CITY BUDGETS** – Please identify the relative degree of change (increase/ decrease) in the following items (a-s) since five years ago (1999).

	Major increase		Minor increase		No change		Minor decrease		Major decrease	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
a. Amount of reserves	19	10%	35	19%	22	12%	51	28%	57	31%
b. Value of city sales tax base	23	13%	58	32%	37	20%	42	23%	24	13%
c. Value of city property tax base	24	13%	89	49%	22	12%	34	19%	12	7%
d. Value of other city tax base	10	6%	53	29%	70	39%	32	18%	16	9%
e. Reliance on user fees to pay for city services	38	21%	66	36%	67	37%	9	5%	3	2%
f. Amount of federal aid to city	12	7%	20	11%	82	45%	35	19%	34	19%
g. Amount of state aid to city	15	8%	18	10%	45	24%	30	16%	76	41%
h. State/federal mandates	59	33%	83	46%	32	18%	3	2%	3	2%
i. Homeland security	46	25%	77	43%	56	31%	1	1%	1	1%
j. Infrastructure needs	90	49%	61	34%	20	11%	7	4%	4	2%
k. Cost of employee health benefits	158	86%	15	8%	8	4%	1	1%	1	1%
l. Employee wages and salaries	45	25%	124	68%	11	6%	3	2%	0	0%
m. Prices, inflation, cost of living	50	27%	126	68%	8	4%	1	1%	0	0%
n. Impact of population growth on service demands	37	20%	70	38%	73	40%	3	2%	1	1%
o. Health of local economy	15	8%	45	25%	37	20%	51	28%	34	19%
p. Tax-limiting voter initiatives	109	61%	15	8%	14	8%	11	6%	30	17%
q. Business/economic development	21	12%	53	29%	63	35%	27	15%	16	9%
r. Cost of defending the city against lawsuits	37	20%	60	33%	79	43%	5	3%	3	2%
s. Cost of liability coverage	73	39%	90	49%	18	10%	3	2%	1	1%

14. **IMPACTS OF ITEMS** – Referring to the list in question 13, indicate the item letter (a-s) of the **THREE** items that have had:

I. The **MOST *NEGATIVE* IMPACT** on your FY 2004 budget *(Which three items make it most difficult to balance your budget and meet city needs?) [Fill in the boxes with the item letters.]*

	# of times listed	**% of responding cities** (182 respondents)
a. Amount of reserves	14	8%
b. Value of city sales tax base	31	17%
c. Value of city property tax base	30	17%
d. Value of other city tax base	3	2%
e. Reliance on user fees to pay for city services	6	3%
f. Amount of federal aid to city	10	6%
g. Amount of state aid to city	52	29%
h. State/federal mandates	32	18%
i. Homeland security	1	1%
j. Infrastructure needs	59	33%
k. Cost of employee health benefits	102	56%
l. Employee wages and salaries	28	15%
m. Prices, inflation, cost of living	16	9%
n. Impact of population growth on service demands	1	1%
o. Health of local economy	20	11%
p. Tax-limiting voter initiatives	110	61%
q. Business/economic development	6	3%
r. Cost of defending the city against lawsuits	0	0%
s. Cost of liability coverage	8	4%

II. The **MOST *POSITIVE* IMPACT** on your FY 2004 budget *(Which three items contribute most to your ability to balance the budget and meet city needs?) [Fill in the boxes with the item letters.]*

	# of times listed	**% of responding cities**
a. Amount of reserves	75	44%
b. Value of city sales tax base	62	36%
c. Value of city property tax base	67	39%
d. Value of other city tax base	39	23%
e. Reliance on user fees to pay for city services	74	43%
f. Amount of federal aid to city	22	13%
g. Amount of state aid to city	19	11%
h. State/federal mandates	2	1%
i. Homeland security	7	4%
j. Infrastructure needs	2	1%
k. Cost of employee health benefits	2	1%
l. Employee wages and salaries	6	4%
m. Prices, inflation, cost of living	15	9%
n. Impact of population growth on service demands	0	0%
o. Health of local economy	36	21%
p. Tax-limiting voter initiatives	2	1%
q. Business/economic development	35	20%
r. Cost of defending the city against lawsuits	0	0%
s. Cost of liability coverage	5	3%

15. **INFRASTRUCTURE DETAIL*** – Of your city's (A) replacement infrastructure needs and (B) new capacity infrastructure needs, please rank the following items from your city's lowest to highest priority. (*For both "A" and "B" below, enter "1" in the space next to your lowest priority, then "2" in the space next to your next lowest priority…up to "7" in the space next to your city's highest priority*.)

A. Replacement Needs		B. New Capacity Needs	
4	Water	3	Water
5	Stormwater	6	Stormwater
6	Sewer	7	Sewer
7	Streets	5	Streets
2	Street lighting	2	Street lighting
3	Sidewalks	4	Sidewalks
1	Bridges	1	Bridges

These results have been successfully fact-checked for a sample of cities, but some variability may still exist in the data due to confusion over the instructions.

POTENTIAL STRATEGIES

16. Please indicate the degree to which implementing the following strategies would help your city meet its budget needs. (*Check one box for each potential strategy.*)

Local Strategies	Very helpful Count	Very helpful Percent	Somewhat helpful Count	Somewhat helpful Percent	No effect Count	No effect Percent	Helpful but not desirable Count	Helpful but not desirable Percent
a. Regional economic development	83	47%	72	40%	21	12%	2	1%
b. Enhanced community-building/civic awareness effort	48	27%	102	57%	28	16%	1	1%
c. Local government-business collaboration	62	35%	87	49%	28	16%	0	0%
d. Local voter approved tax increase	119	66%	36	20%	4	2%	20	11%
e. Increase reliance on user fees	33	19%	95	53%	22	12%	28	16%
f. Personnel cuts	16	9%	25	14%	18	10%	119	67%
g. Program cuts	15	8%	26	15%	23	13%	114	64%
h. Divert services to other providers (e.g. county contract, privatization, special purpose district, etc.)	14	8%	68	38%	43	24%	53	30%

State Strategies	Very helpful Count	Very helpful Percent	Somewhat helpful Count	Somewhat helpful Percent	No effect Count	No effect Percent	Helpful but not desirable Count	Helpful but not desirable Percent
i. State funding support for maintaining basic services	130	72%	41	23%	1	1%	9	5%
j. Funding tools for econ. dev. (e.g. tax increment financing)	108	60%	52	29%	16	9%	3	2%
k. Allow city access to unused county tax authority	83	47%	56	32%	18	10%	20	11%
l. State funding for infrastructure (capital projects)	160	89%	16	9%	2	1%	1	1%
m. Consolidate special district services inside/near cities	36	21%	74	42%	56	32%	9	5%
n. State funding for GMA planning updates	89	50%	68	38%	18	10%	3	2%
o. State funding for shoreline planning updates	60	34%	70	39%	45	25%	3	2%
p. Allow annexation through city-county interlocal agreement	58	33%	58	33%	52	29%	9	5%
q. Help with reducing county contract costs	67	38%	79	45%	30	17%	1	1%
r. State funding for municipal courts	98	55%	43	24%	29	16%	8	4%
s. Limitations on local government liability	93	53%	68	38%	11	6%	5	3%
t. Street utility user fee	95	53%	35	20%	18	10%	30	17%
u. Remove vote requirement for local option gas tax	62	36%	51	29%	31	18%	29	17%
v. Increase state gas tax distribution to cities	141	79%	32	18%	1	1%	4	2%
w. Overall increase in state gas tax (with cities getting a proportionate share)	113	64%	34	19%	5	3%	24	14%

17. In the space provided, please describe any and all efficiencies (maintaining or improving services with fewer resources) your city has implemented over the past five years (since 1999): **For additional survey data, see the AWC website, www.awcnet.org.**

ANYTHING ELSE WE SHOULD KNOW?

18. In the space provided, please let us know if there is anything else you would like us to know about your city's fiscal condition. **For additional survey data, see the AWC website, www.awcnet.org.**

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE!

SECTION II: TO BE COMPLETED BY FINANCE DIRECTORS

CONTACT INFORMATION

1. Name of your city or town: **For list of participating cities, please see Appendix B1 after quantitative results.**
2. Please provide the contact information for the individual who completed or who can answer questions about this questionnaire. *(Please keep a copy of the completed survey for your files and for your reference should we need to call.)*

   a. Name: ____________________________ b. Title: ______________________

   c. Phone number: (_____) ____________ d. E-Mail:_____________________

FINANCE DATA

3. **GENERAL FINANCIAL OUTLOOK –** Overall, would you say that your city is *better* or *less* able to… (*Please circle one number for each item, "a" – "c".*)

	Less able		About the same		Better able	
	Count	Percent	Count	Percent	Count	Percent
a) meet financial needs in FY 2004 than five years ago (1999)?	133	73%	25	14%	24	13%
b) meet financial needs in the next fiscal year (FY 2005) compared to this fiscal year?	133	73%	37	20%	12	7%
c) meet financial needs in the next five years (up to FY 2009) compared to this fiscal year?	148	82%	18	10%	14	8%

4. **GENERAL FUND REVENUE*** – The figures requested in this section are for your city's *GENERAL FUND ONLY*. In the spaces provided ("a" – "j"), please enter your city's revenue for each of the following General Fund revenue sources. (*Please use the actual figures reported to the State Auditor's Office for 2003 and the budgeted or estimated amount for 2004.)*

   ***Data not reported for this question to due invalid results**

5. **TAX CAPACITY** – If your city is currently below your tax rate ceiling (considering all taxing options available to you), what keeps you from using your city's full tax capacity? (*Please check all that apply*.)

	Count	Percent
Current revenues meet our service needs.	25	16%
City Council won't approve.	72	46%
Citizens won't approve.	62	40%
Our city has a very limited tax base to charge.	35	22%
Available tax options would be ineffective for our city.	17	11%
N/A – Our city is already at our full capacity for all available taxes.	34	22%

Please explain: **For additional survey data, see the AWC website, www.awcnet.org.**

6. **DEBT SERVICE** – As a proportion of your operating budget, are you now paying for projects with more or less debt service than you were five years ago? (*Please check one box to indicate whether you rely on debt more, less or about the same*.)

	Count	Percent
More	60	40%
About the same	23	15%
Less	66	44%

a) If your city has not reached its maximum general obligation debt capacity, what factors prevent you from doing so?

Count	Percent	
48	32%	Our city doesn't need to use our full debt capacity to meet our service needs.
35	23%	Citizens won't approve.
36	24%	City Council won't approve.
92	62%	Our city lacks revenues to support additional debt service.
2	1%	Other
11	7%	N/A – Our city is already at our full capacity.

Please explain: **For additional survey data, see the AWC website, www.awcnet.org.**

7. **RESERVES/CASH BALANCES** – Have you used your undesignated reserves to balance the general fund in the past five years? (*Please check one box.)*

Count	Percent	(150 respondents)
86	57%	Yes
52	35%	No
12	8%	Don't know

a) Percent (%) change in reserve funds since 5 years ago (1999) (Please circle "+" or "-"):
Data not recorded here due to varied responses.

b) Projected percent (%) change in reserve funds in next 5 years (present – 2009) (Please circle "+" or "-"):
Data not recorded here due to varied responses.

c) Please explain what has influenced this change (if applicable):
For additional survey data, see the AWC website, www.awcnet.org.

8. **CITY EXPENDITURES** – Please provide your city's OPERATING expenditures for each of the following items, "a" – "j". (*Enter each dollar figure in the space provided. Please use the actual figures reported to the State Auditor's Office for 2003 and the budgeted or estimated amount for 2004.)* ***Data not reported for this question to due invalid results**

9. **Initiative impacts** – How has your city responded to the tax-limiting initiatives that have been passed by the voters over the past five years (**since 1999**)? (*Please check all that apply and enter details in the space provided, where applicable*.)

Count	Percent	For additional data from responses to each question below, see the AWC website, www.awcnet.org.
62	43%	Increased taxes (*Please identify increased taxes*:)
24	17%	Adopted new user fees (*Please identify new user fees*:)
67	46%	Increased user fees (*Please identify new user fees*:)
65	45%	Reduced staff training and travel budgets (*Please identify departments affected*:)
18	12%	Eliminated services (*Please identify services*:)
43	30%	Reduced services (*Please identify services*:)
56	39%	Eliminated staff positions (*Please identify # of staff by department*:)
19	13%	Diverted services to other provider (*Please identify services and new providers:)*
78	54%	Used some or all of undesignated reserves
19	13%	No response

10. **CITIZEN INPUT** – Please describe any efforts your city has made to work with citizens to identify appropriate responses to the initiative impacts (*Please be specific; if none, enter "N/A" in the space provided*):
For additional survey data, see the AWC website, www.awcnet.org.

DEVELOPMENT INFORMATION

11. **CAPITAL DEVELOPMENT –** Has your capital budget increased, decreased or remained about the same over the past six years (since 1998)? (*Please check one box.*)

Count	Percent	
62	42%	Increased
44	30%	Decreased
43	29%	Remained about the same

*If **decreased**, please check one box each for (a) and (b) below.*

a) Have you delayed/reduced spending on capital development projects in the **past six years** in order to balance the budget?

Count	Percent	
59	69%	Yes
20	23%	No
7	8%	Don't know

b) Do you expect you will need to delay/reduce spending on capital development projects in the **next six years** in order to balance the budget?

Count	Percent	
73	72%	Yes
9	9%	No
20	20%	Don't know

12. **Economic Development –** To what extent has your city's effort to generate economic development increased city revenues? (*Please check one box.*)

Count	Percent	
11	8%	No increase
26	18%	Minimal increase
36	25%	Moderate increase
34	24%	Significant increase
19	13%	Don't know
16	11%	N/A – Our city is making no economic development efforts.

a) Does your city fund a department or other city office (other than a redevelopment agency) that works to expand existing businesses and to attract new businesses and investment to your city? (*Please check one box.*)

Count	Percent	
36	26%	Yes
102	72%	No
3	2%	Don't know

b) **If you answered yes to question #12a**, please enter the year in which your city began to fund this department/office in the space provided:

Range = 1960 to 2004

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE!

Appendix B1: Survey Respondents

212 cities participated in Part I and/or Part II of the State of the Cities survey
(75% response rate. Participating cities represent 94% of the 2004 municipal population in Washington state.)

Airway Heights
Albion
Algona
Almira
Anacortes
Arlington
Asotin
Auburn
Bainbridge Island
Battle Ground
Beaux Arts Village
Bellevue
Bellingham
Benton City
Bingen
Blaine
Bonney Lake
Bothell
Bremerton
Brewster
Bridgeport
Brier
Buckley
Bucoda
Burien
Burlington
Camas
Cashmere
Castle Rock
Cathlamet
Centralia
Chehalis
Chelan
Cheney
Chewelah
Clarkston
Cle Elum
Clyde Hill
Colfax
College Place
Colton
Conconully
Concrete
Connell
Cosmopolis
Coulee City
Coulee Dam
Coupeville
Covington
Creston
Darrington
Davenport
Deer Park
Des Moines
Duvall
Eatonville
Edgewood
Edmonds
Electric City
Elma
Entiat
Enumclaw
Ephrata
Everett
Everson
Federal Way
Fife
Fircrest
Friday Harbor
Garfield
George
Gig Harbor
Gold Bar
Goldendale
Grand Coulee
Grandview
Harrah
Hoquiam
Hunts Point
Issaquah
Kelso
Kenmore
Kennewick
Kent
Kirkland
Kittitas
La Center
La Conner
Lacey
Lake Forest Park
Lake Stevens
Lamont
Latah
Leavenworth
Liberty Lake
Longview
Lynden
Lynnwood
Maple Valley
Marcus
Marysville
Mattawa
McCleary
Medical Lake
Medina
Mercer Island
Mesa
Metaline
Metaline Falls
Mill Creek
Millwood
Milton
Monroe
Montesano
Morton
Moses Lake
Mossyrock
Mount Vernon
Mountlake Terrace
Mukilteo
Naches
Napavine
Nespelem
Newcastle
Newport
Nooksack
Normandy Park
North Bend
North Bonneville
Northport
Oak Harbor
Ocean Shores
Olympia
Omak
Oroville
Orting
Othello
Pacific
Pasco
Pateros
Pomeroy
Port Angeles
Port Orchard
Port Townsend
Poulsbo
Pullman
Quincy
Raymond
Reardan
Redmond
Renton
Republic
Richland
Rosalia
Roslyn
Roy
Royal City
Ruston
Sammamish
SeaTac
Seattle
Sedro-Woolley
Selah
Sequim
Shelton
Shoreline
Skykomish
Snoqualmie
Soap Lake
South Bend
South Cle Elum
South Prairie
Spokane
Spokane Valley
Sprague
Starbuck
Steilacoom
Stevenson
Sultan
Sumas
Sumner
Sunnyside
Tacoma
Tekoa
Tenino
Toppenish
Tukwila
Tumwater
Union Gap
Uniontown
University Place
Vader
Vancouver
Walla Walla
Wapato
Warden
Washougal
Washtucna
Wenatchee
West Richland
Westport
White Salmon
Wilbur
Winlock
Winthrop
Woodinville
Woodland
Yacolt
Yakima
Yarrow Point
Yelm
Zillah

Appendix C: State of the Cities results preview feedback form

Name: ____________________

City: **For list of participating cities, see Appendix C1**

Position: ____________________

1. Overall, does the "State of the Cities" message, that most cities are in a "financial vise," reflect the situation in your city?

	Count	Percent
Yes	166	88%
No	20	11%
Other	2	1%

   a. If no, please explain why not: **For additional survey data, see the AWC website, www.awcnet.org.**

2. Since 2000, has there been an impact on the services your city can deliver?

	Count	Percent
Yes	164	87%
No	23	12%
Other	1	1%

   a. If yes, please identify which service(s) were impacted

	Count	Percent (of those who answered yes above)
Road deterioration	131	79%
Less park maintenance	102	62%
Increased fire response time	22	13%
Reduced library hours	32	19%
Decrease in police services	65	40%
Other	46	28%

3. Are you able to fund transportation maintenance from your general fund?

	Count	Percent
Yes	85	46%
No	93	51%
Other	5	3%

4. Are demands for other services reducing general fund resources available for transportation?

	Count	Percent
Yes	153	84%
No	30	16%
Other	0	0%

   a. If yes, please identify which services are taking priority:

	Count	Percent (of those who answered yes above)
Police	129	84%
Fire	93	62%
Parks/recreation	53	35%
Healthcare/employee benefits	10	7%
Other	30	20%

5. Is your city able to fund non-transportation infrastructure (water, sewer, storm water) improvements?

	Count	Percent
Yes	129	70%
No	51	28%
Other	3	2%

   a. If no, please explain why not: **For additional survey data, see the AWC website, www.awcnet.org.**

6. Has your city increased utility rates within the past two years?

	Count	Percent
Yes	130	70%
No	53	28%
Other	3	2%

   a. If no, please explain why not: **For additional survey data, see the AWC website, www.awcnet.org.**

7. Has your city increased user fees within the past two years?

	Count	Percent
Yes	142	78%
No	40	22%
Other	0	0%

   a. If yes, for what program:

	Count	Percent (of those who answered yes above)
Parks/recreation (includes senior/youth)	61	43%
Building/development permits/fees	50	35%
Library	6	4%
Utility	22	15%
Other	37	26%

8. Did your city increase taxes since 1999 in order to sustain services?

	Count	Percent
Yes	120	67%
No	53	30%
Other	5	3%

If yes, please respond to a - c:

a. Which tax(es)?

	Count	Percent (of those who answered yes above)
Property	72	60%
Utility	42	35%
Real Estate Excise Tax	18	15%
Hotel/motel tax	2	2%
Other	13	11%

b. Did your city work with its residents to make this decision? (e.g. via public hearings, community meetings, public vote)

	Count	Percent
Yes	87	85%
No	15	15%
Other	0	0%

	Count	Percent (of those who answered yes above)
Public hearings	56	64%
Other community meetings	34	39%
Public vote	15	17%
Other	2	2%

c. If possible, please identify which service(s) you were trying to preserve:

	Count	Percent (of those who said they raised taxes)
Public safety services	54	45%
Streets/transportation	34	28%
Parks/recreation	34	28%
Other	24	20%

9. If your city has made an effort to work with your citizens on the 2005 budget and service priorities, please describe what you've done: **For additional survey data, see the AWC website, www.awcnet.org.**

10. Other comments? **For additional survey data, see the AWC website, www.awcnet.org.**

Appendix C1: Cities that participated in the supplementary survey

83 cities responded. Multiple city leaders responded from some jurisdictions.

Algona	Des Moines	Kent	Okanogan	Redmond	Tukwila
Arlington	DuPont	Kirkland	Omak	Richland	Union Gap
Auburn	East Wenatchee	Lacey	Orting	Ridgefield	University Place
Battle Ground	Edgewood	Lakewood	Pacific	Rock Island	Vancouver
Benton City	Ellensburg	Longview	Palouse	Roslyn	Walla Walla
Bonney Lake	Federal Way	Lynden	Pasco	Sammamish	Washougal
Bremerton	Ferndale	Lynnwood	Pateros	SeaTac	Waterville
Camas	Fircrest	Marysville	Port Angeles	Sequim	Wenatchee
Cashmere	Goldendale	Mill Creek	Port Orchard	Skykomish	West Richland
Chelan	Grandview	Milton	Port Townsend	Steilacoom	Wilson Creek
Clarkston	Harrah	Monroe	Poulsbo	Sumner	Woodinville
Cle Elum	Kelso	Mountlake Terrace	Pullman	Sunnyside	Woodland
Colfax	Kenmore	Moxee	Puyallup	Tacoma	Yakima
Covington	Kennewick	Ocean Shores	Quincy	Toppenish	

Appendix D: Selected data by cluster

Additional summaries are available on the AWC website, www.awcnet.org.

Top local conditions most improved over the past 5 years

Regional Centers

Vitality of downtown/main street	50%
Overall economic conditions of community	38%
Homeland security/emergency preparedness	25%
Availability of quality affordable housing	25%
Pedestrian-friendly environment	25%
Drinking water systems	25%

Rural Commercial Centers

Drinking water systems	45%
Streets/bridges	27%
Sanitary sewer	27%
Parks & recreation	27%
Sales tax base	27%

Tourism/Light Industrial Hubs

Sanitary sewer	82%
Overall economic conditions of community	55%
Vitality of downtown/main street	55%
Drinking water systems	55%

Moderate Commercial Cities

Drinking water systems	43%
Sanitary sewer	36%
Homeland security/emergency preparedness	21%
Vitality of downtown/main street	21%
Parks & recreation	21%
Volunteerism/community services	21%

Small residential communities

Streets/bridges	54%
Drinking water systems	46%
Parks & recreation	31%

Rural Communities

Sanitary sewer	33%
Drinking water systems	33%
Parks & recreation	33%

Urban Outskirts

Drinking water systems	38%
Sanitary sewer	31%
Parks & recreation	25%

Residential Communities

Pedestrian-friendly environment	30%
Parks & recreation	30%
Vitality of neighborhoods	25%

High Income Residential

Vitality of neighborhoods	40%
Parks & recreation	40%
Overall sense of "community"	40%
City property tax base	40%

Mixed Resource Cities

Overall economic conditions of community	29%
Public transportation/transit service	29%
Parks & recreation	29%
Volunteerism/community services	29%
City relationships with community groups	29%
Sales tax base	29%

Small Commercial Centers

Overall economic conditions of community	44%
City relationships with community groups	33%
Sales tax base	33%

Medium Retail Hubs

Vitality of downtown/main street	50%
Availability of quality affordable housing	38%
Vitality of neighborhoods	38%
Parks & recreation	38%

Major Commercial Centers

Drinking water systems	33%
Violent crime	22%
Homeland security/emergency preparedness	22%
Vitality of downtown/main street	22%
Vitality of neighborhoods	22%
Parks & recreation	22%
Volunteerism/community services	22%
City property tax base	22%

Central Cities

Violent crime	43%
Vitality of downtown/main street	43%
Drinking water systems	29%
Parks & recreation	29%
City property tax base	29%

Top local conditions most deteriorated over the past 5 years

Regional Centers

Overall city budget condition	63%
Traffic congestion	50%
Drugs/alcohol abuse	25%
Overall economic conditions of community	25%
Streets/bridges	25%
City property tax base	25%

Rural Commercial Centers

Overall economic conditions of community	56%
Availability of quality affordable housing	33%
Drugs/alcohol abuse	22%
Unemployment	22%
Vitality of downtown/main street	22%
Traffic congestion	22%
State relations with your city	22%
Overall city budget condition	22%

Tourism/Light Industrial Hubs

Overall economic conditions of community	90%
Availability of quality affordable housing	60%
Traffic congestion	60%
Drugs/alcohol abuse	30%
State relations with your city	30%
Sales tax base	30%

Moderate Commercial Cities

Drugs/alcohol abuse	46%
Unemployment	38%
Overall economic conditions of community	23%
Overall city budget condition	23%

Small residential communities

Overall city budget condition	64%
City property tax base	45%
Overall economic conditions of community	36%

Rural Communities

Overall city budget condition	61%
Drugs/alcohol abuse	35%
Overall economic conditions of community	35%

Urban Outskirts

Overall city budget condition	45%
Traffic congestion	32%
Drugs/alcohol abuse	26%

Residential Communities

Overall city budget condition	58%
Traffic congestion	53%
Sales tax base	21%

High Income Residential

Overall city budget condition	83%
Traffic congestion	33%
Public transportation/transit service	33%

Mixed Resource Cities

Sales tax base	50%
Overall economic conditions of community	33%
Availability of quality affordable housing	33%
Traffic congestion	33%
Streets/bridges	33%
Overall city budget condition	33%

Small Commercial Centers

Traffic congestion	44%
Vitality of downtown/main street	33%
Drugs/alcohol abuse	22%
Overall economic conditions of community	22%
Availability of quality affordable housing	22%
Streets/bridges	22%
Sanitary sewer	22%
Overall city budget condition	22%
City property tax base	22%

Medium Retail Hubs

Traffic congestion	50%
Overall city budget condition	38%
City property tax base	38%

Major Commercial Centers

Overall city budget condition	63%
Traffic congestion	50%
Sales tax base	50%

Central Cities

Traffic congestion	71%
Overall economic conditions of community	57%
Overall city budget condition	57%

Top local conditions most important to address in the next 5 years

Regional Centers

Overall economic conditions of community	57%
Overall city budget condition	57%
Traffic congestion	43%

Rural Commercial Centers

Overall economic conditions of community	67%
Overall city budget condition	44%
Streets/bridges	33%
Sales tax base	33%

Tourism/Light Industrial Hubs

Availability of quality affordable housing	55%
Overall economic conditions of community	55%
Traffic congestion	55%

Moderate Commercial Cities

Streets/bridges	54%
Drugs/alcohol abuse	38%
Overall economic conditions of community	31%
Unemployment	31%
Overall city budget condition	31%

Small residential communities

Overall city budget condition	58%
Sales tax base	50%
City property tax base	33%

Rural Communities

Overall city budget condition	52%
Overall economic conditions of community	36%
Sales tax base	32%

Urban Outskirts

Overall city budget condition	72%
City property tax base	31%
Vitality of downtown/main street	24%
Streets/bridges	24%
Sales tax base	24%

Residential Communities

Overall city budget condition	65%
Traffic congestion	50%
Sales tax base	50%

High Income Residential

Overall city budget condition	75%
Traffic congestion	50%
City property tax base	50%

Mixed Resource Cities

Traffic congestion	57%
Overall city budget condition	43%
Overall economic conditions of community	29%
Streets/bridges	29%

Small Commercial Centers

Vitality of downtown/main street	56%
Drinking water systems	33%
Overall city budget condition	33%

Medium Retail Hubs

Overall city budget condition	56%
Traffic congestion	44%
Overall economic conditions of community	33%
Vitality of downtown/main street	33%

Major Commercial Centers

Overall city budget condition	80%
Sales tax base	60%
Traffic congestion	40%

Central Cities

Overall economic conditions of community	57%
Traffic congestion	57%
Overall city budget condition	57%

Top negative budget influences

Regional Centers

Cost of employee health benefits	89%
Cost of liability coverage	89%
Tax-limiting voter initiatives	67%

Rural Commercial Centers

Tax-limiting voter initiatives	60%
Cost of employee health benefits	50%
Infrastructure needs	50%

Tourism/Light Industrial Hubs

Cost of employee health benefits	82%
Tax-limiting voter initiatives	64%
State/federal mandates	36%

Moderate Commercial Cities

Cost of employee health benefits	42%
Tax-limiting voter initiatives	42%
Infrastructure needs	33%

Small residential communities

Amount of state aid to city	54%
State/federal mandates	46%
Tax-limiting voter initiatives	38%

Rural Communities

Amount of state aid to city	46%
Cost of employee health benefits	46%
Tax-limiting voter initiatives	46%

Urban Outskirts

Cost of employee health benefits	69%
Tax-limiting voter initiatives	59%
Infrastructure needs	38%

Residential Communities

Tax-limiting voter initiatives	78%
Amount of state aid to city	48%
Cost of employee health benefits	43%

High Income Residential

Tax-limiting voter initiatives	67%
Cost of employee health benefits	50%
Employee wages and salaries	33%

Mixed Resource Cities

Tax-limiting voter initiatives	86%
Infrastructure needs	57%
Cost of employee health benefits	43%

Small Commercial Centers

Cost of employee health benefits	67%
Tax-limiting voter initiatives	67%
Infrastructure needs	44%

Medium Retail Hubs

Tax-limiting voter initiatives	75%
Cost of employee health benefits	63%
Employee wages and salaries	50%
Infrastructure needs	50%

Major Commercial Centers

Cost of employee health benefits	64%
Tax-limiting voter initiatives	55%
Infrastructure needs	36%

Central Cities

Tax-limiting voter initiatives	71%
Cost of employee health benefits	57%
Employee wages and salaries	29%
Health of local economy	29%
Value of city sales tax base	29%

Top positive budget influences

Regional Centers

Amount of Reserves	43%
Business/economic development	43%
Value of city sales tax base	43%

Rural Commercial Centers

Reliance on user fees to pay for city services	44%
Amount of federal aid to city	33%
Amount of Reserves	33%
Business/economic development	33%
Health of local economy	33%

Tourism/Light Industrial Hubs

Amount of Reserves	55%
Value of city sales tax base	55%
Health of local economy	45%

Moderate Commercial Cities

Amount of Reserves	42%
Health of local economy	42%
Amount of federal aid to city	25%
Business/economic development	25%
Homeland security	25%
Reliance on user fees to pay for city services	25%

Small residential communities

Amount of Reserves	64%
Reliance on user fees to pay for city services	55%
Value of city property tax base	55%

Rural Communities

Reliance on user fees to pay for city services	68%
Amount of Reserves	45%
Amount of state aid to city	27%
Value of city property tax base	27%

Urban Outskirts

Reliance on user fees to pay for city services	48%
Value of city property tax base	38%
Value of city sales tax base	34%

Residential Communities

Amount of Reserves	59%
Reliance on user fees to pay for city services	55%
Value of city property tax base	55%

High Income Residential

Amount of Reserves	83%
Value of city property tax base	67%
Reliance on user fees to pay for city services	50%

Mixed Resource Cities

Value of city property tax base	71%
Value of city sales tax base	57%
Health of local economy	43%

Small Commercial Centers

Business/economic development	56%
Value of city property tax base	56%
Value of city sales tax base	56%

Medium Retail Hubs

Value of city sales tax base	88%
Business/economic development	38%
Amount of Reserves	25%
Health of local economy	25%
Reliance on user fees to pay for city services	25%

Major Commercial Centers

Amount of Reserves	55%
Value of city property tax base	45%
Value of city sales tax base	45%

Central Cities

Value of city property tax base	57%
Reliance on user fees to pay for city services	43%
Prices, inflation, cost of living	29%
Value of city sales tax base	29%

General financial outlook: Ability to meet financial needs this year compared to five years ago, last year, and in five years

Ability to meet financial needs compared to	Number responding Less able	Same	Better able	% of respondents % Less able	Same	% Better able
Five years ago	133	25	24	73%	14%	13%
Next year	133	37	12	73%	20%	7%
In next five years	148	18	14	82%	10%	8%

Five years ago	Number responding Less able	Same	Better able	% of respondents % Less able	Same	% Better able
All Cities	133	25	24	73%	14%	13%
Regional Centers	6	1	1	75%	13%	13%
Rural Commercial Centers	7	1	3	64%	9%	27%
Tourism/Light Industrial Hubs	7	3	0	70%	30%	0%
Moderate Commercial	8	1	2	73%	9%	18%
Small Residential	12	2	0	86%	14%	0%
Rural Communities	21	4	1	81%	15%	4%
Urban Outskirts	26	4	3	79%	12%	9%
Residential Communities	17	2	5	71%	8%	21%
High Income Residential	3	0	1	75%	0%	25%
Mixed Resources	5	1	1	71%	14%	14%
Small Commercial Centers	5	0	4	56%	0%	44%
Medium Retail Hubs	6	1	2	67%	11%	22%
Major Commercial Centers	6	4	1	55%	36%	9%
Central Cities	4	1	0	80%	20%	0%

Next year	Number responding			% of respondents		
	Less able	Same	Better able	% Less able	Same	% Better able
All Cities	133	37	12	73%	20%	7%
Regional Centers	5	3	0	63%	38%	0%
Rural Commercial Centers	10	1	0	91%	9%	0%
Tourism/Light Industrial Hubs	6	2	2	60%	20%	20%
Moderate Commercial	6	5	0	55%	45%	0%
Small Residential	11	3	0	79%	21%	0%
Rural Communities	18	7	1	69%	27%	4%
Urban Outskirts	27	4	2	82%	12%	6%
Residential Communities	20	3	1	83%	13%	4%
High Income Residential	3	1	0	75%	25%	0%
Mixed Resources	4	2	1	57%	29%	14%
Small Commercial Centers	6	0	3	67%	0%	33%
Medium Retail Hubs	6	3	0	67%	33%	0%
Major Commercial Centers	7	2	2	64%	18%	18%
Central Cities	4	1	0	80%	20%	0%

In five years	Number responding			% of respondents		
	Less able	Same	Better able	% Less able	Same	% Better able
All Cities	148	18	14	82%	10%	8%
Regional Centers	7	1	0	88%	13%	0%
Rural Commercial Centers	9	1	1	82%	9%	9%
Tourism/Light Industrial Hubs	7	2	1	70%	20%	10%
Moderate Commercial	9	2	0	82%	18%	0%
Small Residential	12	2	0	86%	14%	0%
Rural Communities	22	2	1	88%	8%	4%
Urban Outskirts	27	2	3	84%	6%	9%
Residential Communities	20	2	2	83%	8%	8%
High Income Residential	4	0	0	100%	0%	0%
Mixed Resources	6	1	0	86%	14%	0%
Small Commercial Centers	4	2	3	44%	22%	33%
Medium Retail Hubs	8	0	1	89%	0%	11%
Major Commercial Centers	9	1	1	82%	9%	9%
Central Cities	4	0	1	80%	0%	20%

Appendix E: Pavement condition ratings by city

Collector data reported by each city

City	Centerline miles	Lane miles	Average rating score
Auburn	21.99	45.15	69
Bellevue	50.93	106.56	85
Bellingham	22.46	43.06	72
Everett	34.68	84.99	85
Federal Way	11.94	26.40	85
Kirkland	24.79	50.77	72
Lacey	7.90	16.44	67
Mount Vernon	12.50	26.80	89
Olympia	18.51	37.64	67
Puyallup	21.43	46.86	76
Redmond	18.21	41.62	89
Renton	22.92	53.27	70
Sammamish	11.26	22.58	69
SeaTac	10.48	23.30	84
Seattle	136.14	268.77	68
Spokane	80.87	193.56	58
Spokane Valley	36.68	75.34	85
Tacoma	71.97	174.81	51
Tumwater	16.79	33.59	83
Vancouver	58.84	121.01	69
Walla Walla	16.09	32.18	65
Yakima	19.05	42.46	73
Totals	**726.42**	**1,567.16**	**69**

Local access data reported by each city

City	Centerline miles	Lane miles	Average rating score
Auburn	84.52	169.50	67
Bellevue	274.47	548.61	86
Bellingham	179.68	352.18	75
Friday Harbor	7.18	14.36	78
Lacey	66.32	132.51	64
Mount Vernon	69.37	138.77	76
Olympia	110.10	220.20	62
Renton	148.12	296.99	82
SeaTac	80.45	159.04	84
Seattle	1.62	3.34	87
Spokane	90.32	185.98	61
Spokane Valley	286.95	576.39	79
Tacoma	12.75	25.29	54
Tumwater	42.51	85.01	86
Vancouver	387.28	774.91	68
Walla Walla	128.81	257.71	67
Totals	**1,970.44**	**3,940.79**	**74**

Average rating score legend

Excellent	89-100
Good	68-88
Fair	49-67
Poor	21-48
Failed	0-20

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